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The Baltic States and the European Union  
- on the Road to Membership

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Niina Pautola

## The Baltic States and the European Union - on the Road to Membership

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### Abstract

In recent years, the relationships of the three Baltic states with the European Union have intensified through a variety of agreements aimed at further developing economic and political relations, and ultimately, integration with the European Union. The most important agreements to date have been the Agreements on Trade and Commercial and Economic Cooperation, the Free Trade Agreement, and more recently, Association Agreements (also known as Europe Agreements). Through these, Estonia, Latvia and Lithuania have asserted their intentions to become fully integrated with Europe.

Compared to current EU members, however, the economic, political and social structures of the Baltics are still in transition. To help them as well as other "Central and Eastern European Countries" or "CEECs" in their preparation for membership, the EU has issued a White Paper on approximation of laws, established the Phare expertise-assistance programme, and given at least some preliminary indications as to the conditions for entry.

The Baltics are presently focused on the outcome of the EU's Intergovernmental Conference. By 1998, the IGC must decide on the scope of eastern enlargement and, in particular, designate when and under what terms the Baltics are to be admitted to the EU.

The European Union's unwillingness to specify conditions and dates for possible membership has become a matter of contention as the Baltic states have continuously insisted on exact dates for their admission. Further, the EU still prefers to deal with the Baltics as a single entity, while the Baltics themselves wish to be treated individually on their own merits. Quite evidently the matter will continue to hang in the air until the EU has reviewed the consequences of eastern enlargement and taken decisions on special admission criteria.

Keywords: Baltic countries, enlargement, EU, integration

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### Summary

This article concerns the relationship between the European Union and the three Baltic states. In particular, the main issues include the strategies and instruments used by the parties in preparation for membership.

Part one consists of a short history of EU-Baltic relations. Since 1993, the Baltic states' relations with the European Union have been based on the Agreements on Trade and Commercial and Economic Cooperation. Mutual relations

have been further intensified through Free Trade Agreements. More recently, the Baltic states and the EU have signed Association Agreements (aka Europe Agreements), which are legal stepping stones towards EU membership. In addition to Association Agreements, the EU has prepared a White Paper on approximation of laws as well as provided assistance through the Union's Phare programme.

All three Baltic countries applied for EU membership in 1995. Currently, the main emphasis is focused on the EU's Intergovernmental Confer-

ence, which lasts until 1998. One of the main tasks set to the IGC is to decide on the EU's eastern enlargement. The outcome of the IGC and the economic progress of the Baltic countries will greatly influence when and under what conditions membership negotiations for the Baltic states begin.

Since the Baltic countries are still in transition and their economic, political as well as social systems are still in the process of formation, the terms of admission to the EU have become a hot topic. Section two describes the problem of defining the admission criteria. The question of terms of entry is addressed, with particular attention paid to the "French list" as well as economic indicators and trends affecting the economic health of the Baltic states.

Yet, even with a lack of clear admission criteria, the main thrust of future development can be identified. From the Baltics' point of view, qualification for membership implies an enormous amount of catching up.

Their preparation strategy at this point has three parts. First, they will play on terms of the Association Agreements, signed June 1995, which are preferential agreements designed to establish a close, long-term association between the EU and the Baltic states. The Association Agreements fully supplant the Agreements on Free Trade signed between the EU and the Baltic countries. The Association Agreements also include provisions on other matters such as expanding political dialogue, movement of workers and capital, supply of services as well as provisions on economic, cultural and financial cooperation, and cooperation on the prevention of illegal activities.

The main difference among the three Baltic Association Agreements is that Latvia and Lithuania have been granted transitional periods that will end on 31 December 1999, whereas Estonia, due in part to its economic openness, has neither sought nor been granted such a transitional period.

Section three focuses the second entity important to the Baltics' strategy – the EU's Phare Programme. Since the Association Agreements acknowledge the interest of the partner country in becoming a full member of the EU and since the Baltic countries are still in the process of transition, the Union has sought to provide technical assistance through the Phare Programme, which aims at helping Central and Eastern European

Countries (CEECs) achieve the objectives of the Association Agreements. The Baltic countries have been part of the Phare Programme since 1992 and have received assistance both through national as well as through multi-country programmes.

The third part of Baltic states' strategy towards membership is based on the Union's White Paper of May 1995 concerning the approximation of laws. The White Paper is discussed in section four. The White Paper provides some rough guidelines, although each Baltic country has the freedom to establish its own priorities, timetable and design individual approximation programmes. From the Baltics' point of view, the greatest challenges are in the areas of company law, intellectual property rights, development of financial systems and competition policies. Although, in principle, the White Paper acts as a handbook for the Baltics' law approximation process, it can be interpreted as requiring too much too quickly, and thus may ultimately have a discouraging effect.

The final part of this article discusses the differences in opinions between the Baltic states and the EU concerning if, when, and how the accession should take place. The three Baltic states are currently insisting on exact timetables and require that each applicant country should be dealt with individually, according to their own merits. The EU, on the other hand, is unwilling to be pinned down to any guarantees or commitments, and prefers to deal with the Baltic countries as a single entity.

Finally, there remains a great deal of work on admission criteria. As the full consequences of enlargement are impossible to foretell, the status of EU membership for the Baltic countries remains in the balance.

## 1 A Brief History

The Baltics present relations with the EU are covered under the Agreements on Trade and Commercial and Economic Cooperation which came into force in February and March 1993. On 7 February 1994, the EU foreign ministers approved a directive to begin free trade negotiations with the Baltics, so that in July 1994 Estonia, Latvia and Lithuania signed Free Trade Agreements with the EU. After signing, the Council of the EU opened the procedure for negotiation of

Association Agreements (Europe Agreements). On 28 November 1994, the EU foreign ministers approved the mandate for authorizing the Commission to negotiate Association Agreements with the three Baltic states. At the end of January 1995, practical negotiations on the Europe Agreements with delegations from the Baltic states began. After two rounds of negotiations with each country, the Agreements were initialled in Brussels on 12 April 1995. The signing of the Agreements took place two months later and the ratification process is currently underway. When the Europe Agreements enter into force, they will supplant the Trade and Economic Cooperation Agreement and the Free Trade Agreement.

All three Baltic states have officially applied for EU membership. Latvia left its application in October 1995, Estonia followed in November, and Lithuania in December.

An Association Agreements constitutes acknowledgement of the interest of a partner country in becoming a full member of the EU. Such agreements have also been made with Malta, Cyprus, Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania and Slovenia. In many of these young democracies, a great deal of economic, political and social reform must be still be implemented before they reach the level of the current member states. To provide guidance, the EU issued a "White Paper" on the approximation of laws in May 1995. The White Paper sets out lists of matters and adjustments which have to be dealt with by applicant countries as they prepare for accession.

Current interest revolves around the outcome of the EU's Intergovernmental Conference (IGC), a conference of representatives of the governments of the Member States. The IGC consists of a set of negotiations which started at the end of March 1996 in Torino, Italy. The mission of the IGC is "reinforcing political union and preparing for enlargement".<sup>1</sup> Thus, the EU must decide on its guidelines for defence, define the Union's new financial framework, and determine the needed adjustments in its policies to cope with the effects of enlargement. Given the present challenges faced

by the Union, accession negotiations will most likely not begin until after the end of the IGC in 1998. For the time being, the EU has told applicant countries that they will be informed of the progress of the Conference and will have the possibility to express their points of view concerning enlargement.

## 2 Admission Criteria

### 2.1 The French List

It can be said that the quality of the relationship between the EU and the current batch of Associate States is qualitatively different from the relations the EU had with earlier candidate countries. Nearly all new applicants have limited recent experience with the market economy and democratic processes. Understandably, the timing and terms of admission have become hot topics.

Three years ago at the Copenhagen summit, the European Council acknowledged "that the associated countries in Central and Eastern Europe that so desire shall become members of the EU".<sup>2</sup> In order to do so, the Copenhagen Council listed three basic criteria that Associated Countries would have to satisfy. The first requirement was stability of institutions, which basically meant having a system that supports the rule of law, human rights and protection of minorities. The second requirement was a functioning market economy sufficiently developed to cope with the competitive environment and market forces within the Union. Third, each new applicant would be expected to demonstrate the ability to take on the obligations of membership as well as to support the aims of political, economic and monetary union. A fourth precondition was subsequently added, whereby the EU itself should show that it has the capacity to handle new members without slowing the momentum of the European integra-

<sup>1</sup> Laursen, Finn (1996) *The Intergovernmental Conference: Challenges and Prospects*.

European Parliament, IGC (1996) *Position of the European Parliament*.

<sup>2</sup> See further: Commission of the European Communities (1994) *The Europe Agreements and Beyond: A Strategy to Prepare the Countries of Central and Eastern Europe for Accession*. COM(94) 320 final, COM(94) 321 final nad 361 final.

tion process.

The criteria set by the European Council were so general, however, that they failed to provide concrete definitions or guidelines on how Associate nations would actually prepare for membership. During the Copenhagen summit, there were several attempts, especially by the French, to go deeper into the implications of the three Copenhagen principles. The French wanted to discuss in practical terms what constituted a functioning market economy and how one might measure the capacity to cope with competitive pressure.

The French made a proposal, now known as the "French list", which included admission criteria expressed in more detail form<sup>3</sup>. According to this list, the general state of the development of the economy could be measured in terms of GDP per capita, whereas the functioning of the market economy could be measured by the extent of privatization. They further suggested that the criteria should include a demonstrated ability to deliver a quantifiable level of social protection, as well as control over public debt and inflation. In addition, it should be possible to assess the applicant's monetary and fiscal policies, including convertibility and stability of the local currency and policies on capital movements. There should be an efficient banking system. Moreover, the degree of openness of the economy should be measurable in terms of the proportion of external trade in GDP and the implications of the applicant's economy with the Union. Finally, the capacity of national administrations to implement national and Community law as well as the existence of a modern fiscal system should be included in the assessment of economic health.

Back in 1993, eastern enlargement was not self-evident, which perhaps explains why the French list had such little impact. Now, eastern enlargement is more or less a question of when. To answer the when question, though, we need to first be able to define the level of economic health required to join the Union. Further, no matter what definition of economic health is eventually applied, the Baltic states will have to be able to meet that definition. Thus, it might be worthwhile to review recent economic trends in Baltic economies to get some idea of the economic health of each Baltic

state from the standpoint of the French list.

## 2.2 Economic Health and Transition

In the following statistics, published by the European Bank for Reconstruction and Development (EBRD) in October 1995, the progress of the Baltic states is described by several transition indicators. The indicators cover the areas of enterprises, markets and trade, financial institutions as well as legal reform. As can be seen, EBRD transition indicators cover some of the measures presented in the 1993 French list including the extent of privatization, the existence of a banking system, and the capacity to implement legal reform. Each number indicates a certain level of transition in the specific areas in question. The scale runs from 1 to 4+; the higher the number, the greater the economic progress.

Latvia has been slowest in the area of privatization large enterprises; to date only a few state-owned companies have been divested. By contrast, more than 25 % of Lithuania's and more than 50 % in Estonia's larger state-owned enterprises have been privatized or are in the process of being sold off. By comparison, the average for enterprise assets in private hands in advanced industrial countries is over 75 %.

Small companies have all been completely privatized in all Baltic countries, but the sale of land and real estate remains problematic.

Estonia has made the greatest progress in corporate restructuring. Significant and sustained actions have been taken to constrain budgets and promote responsible corporate management. This has been done through privatization efforts, tighter credit, cutbacks in subsidies and strict enforcement of bankruptcy legislation. Latvia and Lithuania have followed more moderate credit and subsidy policies and their enforcement of bankruptcy legislation has been spotty. Further, neither country has done much to break up the dominant positions of key state-owned firms. Recent banking crises in Latvia and Lithuania, however, may provide the needed incentive to improve banking legislation.

Further improvements in financial discipline at the enterprise level as well as corporate management are still needed throughout the Baltics. To a certain extent, such improvements could be sup-

<sup>3</sup> Ludlow Peter, Preparing for Membership, Centre for European Policy Studies, Brussels, 17 November 1995.

Table 1 Transition indicators

	Estonia	Latvia	Lithuania
Private sector share of GDP in % (mid-95, rough EBRD estimate)	65	60	55
Large-scale privatization	4	2	3
Small-scale privatization	4	4	4
Enterprise restructuring	3	2	2
Price liberalization	3	3	3
Trade & foreign exchange system	4	4	4
Competition policy	3	2	2
Banking reform & interest rate liberalization	3	3	3
Securities markets & non-bank financial institutions	2	2	2
Extensiveness and effectiveness of legal rules on investment	3	2	2

Source: EBRD Transition Report, October 1995.

ported through governmental restructuring and further actions to break up the dominance of key state-owned firms.

All Baltic countries have made substantial progress in price liberalization, even energy prices, so that most prices are no longer formally controlled by the government. However, comprehensive price liberalization has yet to be achieved.

Estonia is in a unique position since it has abolished all protectionist measures affecting trade. Latvia and Lithuania, in turn, have removed all quantitative and administrative import and export restrictions (except agriculture) as well as all significant export tariffs. There is no significant non-uniformity of customs duties for non-agricultural goods and services.

In all three countries, the ministries and state-owned trading companies have little direct involvement in exports and imports. If the Baltic states are to reach standards and performance norms of advanced industrial countries, they must remove tariff barriers and join the WTO (World Trade Organization, the former GATT).

Estonia is in the process of setting up competition legislation and institutional oversight. Furthermore, significant enforcement actions have been made to reduce abuse of market power and to promote a competitive environment. This has included break-ups of dominant conglomerates and a substantial reduction of entry restrictions. Latvia and Lithuania have also embarked on a similar path, but in competition legislation and institu-

tions, reduction of entry restrictions and enforcement action against companies with dominant market positions, there has been considerable less progress. In order to reach the level of advanced industrialized countries, competition policy must be further improved, especially in the arena of unrestricted access to markets.

The speed of banking reform and interest rate liberalization has been about the same in all Baltic countries. All have significantly liberalized interest rates and credit allocation. Furthermore, Baltic countries have made progress in establishment of bank solvency requirements and frameworks for advisory supervision and regulation. Other features in the Baltic banking reform have been significant lending to private enterprises and a large amount of private banks as well as limiting preferential access to cheap refinancing. In the future, Baltic banking countries must be able to provide the full range of competitive banking services found elsewhere in Europe. In addition, they must work towards full convergence of banking laws and regulations with BIS<sup>4</sup> standards (see more Korhonen 1996)

Development of securities markets and non-bank financial institutions has been rather slow in all Baltic countries. Even today most trading is in government papers and government securities. Indeed, the legal and regulatory framework for the issuance and trading of securities is still in its

<sup>4</sup> Bank for International Settlements

infancy. The mandatory improvements to be made include more substantial issuance of securities by private enterprises, the establishment of independent share registers, secure clearing and settlement procedures, and protection of the rights of minority shareholders. Further development should also include increasing the number of non-bank financial institutions e.g. investment funds, private insurance and pension funds and leasing companies. Securities laws and regulations should also be harmonized with international standards as well as fully developed systems of non-bank intermediation.

Again, when it comes to the scope and power of legal rules on investment, the situation in Estonia is better than in the other two Baltic states. In Estonia, legal rules do not impose major obstacles on the creation of investment vehicles, the taking of security or the export of profits. Further, the law in this regard is reasonably clear, and where specialized legal advice is needed, expert help is readily available. However, judicial and administrative support of the laws in Estonia is still often inadequate. In Latvia and Lithuania legal rules are often unclear and legal advice is difficult to obtain. In addition, legal rules impose constraints to creating investment vehicles. Also, judicial and administrative support of the law is undeveloped. Future efforts, therefore, should concentrate on the bringing of legal rules into line with international standards. This would include sophisticated legal advice as well as properly administered and judicially supported investment laws. In particular, efforts should be made with respect to creating a functional court system.

### 2.3 Other Indicators of Economic Health

In addition to the EBRD transition indicators, the next table shows other measures describing the economic health in Baltic countries, expressed according to the French criteria. The statistics include data from national authorities, the European Commission and the IMF. With regard to national statistics in particular, the data should be regarded as incomplete and inaccurate. Nevertheless, they are still sufficient to permit some general observations.

Comparing the above figures with those of the

Union should provide an indication of how far off, or close, a Baltic nation's membership may be. How rich a country is at the moment, though, should not be the primary concern. What is critical is that the EU correctly judge whether the applicant actually has the capacity to create wealth fast enough bring it up to the EU average in a reasonably short time.

Present statistics reveal just far the Baltics have to go to reach the EU average, for example, in terms of GDP per capita. Further, inflation rates in the Baltics are still far above those of the EU. On the other hand, in terms of openness of their economies and shares of public debt to GDP, the Baltic countries would readily pass muster today. An obvious requirement, then, is that the Baltic countries demonstrate that they will be able to consistently exceed the average EU economic growth rate to catch up. Indeed, the track record for GDP growth in Estonia and Latvia over the last two years has been better than the EU average.

A key to maintaining high economic growth will be investments. According to the Economic report by the European Commission,<sup>5</sup> net foreign direct investment (FDI) into the Baltic states increased in 1994. In particular, Estonia experienced a boom in FDI inflow, reaching 9.5 % of GDP. In Latvia and Lithuania the respective figures were 3.9 % and 1.7 % of GDP. The same report estimates FDI to have increased in Latvia and in Lithuania in 1995. Estonia, however, was expected to show a minor decline in FDI in 1995. Finally, apart from Latvia, net capital inflows into the Baltic countries have been positive during the last three years. Both the increase in FDI and positive net capital inflows can be taken as a promising sign.

So far we have collected some of the criteria that could be used when evaluating the economic health of the Baltic countries. These criteria, whatever they finally end up being, play crucial role. First, their values show the course the Baltic economies should follow when preparing for the membership. Second, meeting the criteria makes it much easier to schedule EU accession. Naturally, the statistics do not tell everything, but they do

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<sup>5</sup> European Commission, *European Economy, The Improvement in the External Position of Central and Eastern European Countries, Supplement A, Economic Trends*, No. 2-February 1996.



Table 2 **Economic Trends in the Baltic States**

	<b>Estonia</b>	<b>Latvia</b>	<b>Lithuania</b>
GDP % (94)	+4	+0.6	+0.6
GDP % (95)	+3	+3.0	-1.0
GDP/capita (92) USD	2 760	1 930	1 310
GDP/capita (Q3/94-Q2/95)	23 180	930	5 650
	<b>EEK<sup>6</sup></b>	<b>LTL<sup>7</sup></b>	<b>LVL<sup>8</sup></b>
Inflation % (94)	42	26	45
Inflation % (95)	29	23	36
Public debt % of GDP (94)	0	4	4
Public debt % of GDP (95)	0	5	3
Current account balances % of GDP (94)	-6.4	-2.5	-3.7
Current account balances % of GDP (95)	-5.4	-1.7	-4.0
Export % of GDP (95)	55.5	29.2	51.4
Average monthly wage \$ (95)	235	210	165
Rate of growth in average monthly wage % 94/95	29	10	39

Table 3 **Economic Trends in the EU**

GDP /capita USD	1992	26 559
GDP growth %	1993	-0.6
	1994	+2.8
	3/95	+0.5
Export/ GDP %	1993	28.3
Inflation %	1995	3.0
	1/96	2.8
Public debt % of GDP	1995	4.7

<sup>6</sup> 1 DEM = 8 EEK<sup>7</sup> 1 USD = 4 LTL<sup>8</sup> 1 SDR = 0.8 LVL

Table 4 FDI and capital inflows into the Baltic States

		Estonia	Latvia	Lithuania
FDI, % of GDP	1994	9.5	3.9	1.7
FDI (USD million)	1993	160	51	23
	1994	253	155	60
	1995 <sup>9</sup>	200	165	70
Net capital inflows % of GDP	1993	14.0	4.5	14.3
	1994	11.3	5.8	5.1
	1995 <sup>10</sup>	5.4	-0.4	7.5

provide robust guidelines. To achieve their membership goals, the Baltics must work in three strategic frameworks. The first is defined under the Association Agreements, the second are actions carried out within the scope of EU technical assistance under the Phare Programme, and the third is the Commission's highly relevant White Paper of May 1995 on the approximation of laws.

### 3 Association Agreements

Association Agreements (Europe Agreements) are preferential agreements, designed to establish a close, long-term association between the EU and individual CEECs. The Commission's communication of August 1990 on Association Agreements with Central and Eastern Europe Countries itemized the following general goals:

- \* To create a climate of confidence and stability favouring political and economic reform and allowing the development of close political relations which reflect shared values.
- \* To strengthen the foundations of the new European architecture by enabling partners in Central and Eastern Europe to participate in a wider process of European integration.

- \* To encourage a climate for trade and investment.
- \* To enable the countries of Central and Eastern Europe to manage transition better.
- \* To improve the transparency and coherence of Community financial support.
- \* To promote a better two-way flow of information and cultural cooperation.

All in all, the Association Agreements can be seen as a medium-term solution, a "stepping stone" to membership. In the case of the Baltics, these Agreements will supplant the 1993 Agreements on trade and commercial and economic cooperation between the EU and the Baltic states when they enter into force.

A few general marks on the content of these Agreements are in order. Regarding trade and trade related matters, the Association Agreements fully incorporate the Agreements on Free Trade signed between the EU and the Baltic countries. On other matters, they mainly follow the pattern of the Europe Agreements with the other associated countries of Central and Eastern Europe. Some differences, however, exist between the Agreements of each Baltic country: In the case of Latvia and Lithuania, the Agreements provide for transi-

<sup>9</sup> Forecast

<sup>10</sup> First half of 1995

tional periods that will end on 31 December 1999. No such transitional period has been provided for Estonia, since Estonia has no protectionist economic measures, and thus no extra time is required to abolish restrictions contradicting EU rules.<sup>11</sup> The Agreements also provide for political dialogue between the EU and the three Baltic nations within the multilateral framework established with the other associated countries. Furthermore, they include provisions on establishment of firms, movement of workers and supply of services, on movement of capital and on economic, cultural and financial cooperation. In addition, they provide for the establishment of an Association Council which supervises the implementation of the agreement and has the power to take decisions in specific cases. Finally, these latest Association Agreements contain provisions on cooperation in the prevention of illegal activities.

In the following, we shall summarize the main principles and provisions of these Agreements and discuss similarities and differences. This presentation mainly follows the contents of the actual agreement texts.<sup>12</sup> We start with Estonia.

### 3.1 Estonia

By signing the Association Agreement, the EU has shown it wants to further develop relations with Estonia. Nevertheless, full implementation of the Agreement as well as EU membership will require significant economic and political reforms on Estonia's part. The thrust of Agreement, therefore, is that the EU is willing to assist Estonia in facing the economic and social consequences of its structural adjustment process.

The main objectives of an association arrangement is to provide a framework for political dialogue between the EU and Estonia that will promote the development of close political rela-

tions, and encourage free trade area and the liberalization of trade according to GATT and WTO principles. The association also aims to provide a basis for economic, financial, cultural and social cooperation as well as cooperation in the prevention of illegal activities. Moreover, the EU wishes to provide assistance that supports Estonia's efforts to develop towards a strong democracy and vigorous market economy. The association arrangement provides an appropriate framework for the gradual integration of Estonia into the EU and allows Estonia to work towards fulfilling the necessary requirements of membership. Naturally, there is a need to set up institutions to make the association effective.

The general principles of the Association Agreement include respect for democratic principles and human rights as well as commitment to a market economy. Further, the EU and Estonia consider that it is essential to the future prosperity and stability of the region that the Baltic States maintain and develop cooperation among themselves and make every effort to encourage this process.

As mentioned, the EU and Estonia wish to develop and intensify their political dialogue. At ministerial level, bilateral political dialogue shall take place within the Association Council, which has general responsibility for any matter which the parties might wish to put to it. Other avenues for political dialogue include meetings of senior officials and use of diplomatic channels, including contacts in third countries. At the parliamentary level, political dialogue shall take place in the framework of the Parliamentary Committee between the EU and Estonia.

Thanks to its complete lack of protectionist economic measures, Estonia occupies a unique position among all European nations. No efforts to abolish supports and restrictions contradicting EU rules will be necessary. In the framework of the Association Agreement the Community and Estonia established a free trade area on 1 January 1995. Thus, the general principle regarding the movement of goods has been satisfied: all customs duties, quantitative restrictions and measures having equivalent effect have been abolished on industrial and agricultural products. The EU and Estonia have, however, agreed that protectionist measures may be resorted to in special circumstances such as situations where a product is being

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<sup>11</sup> The Baltic Review (1995) The Baltic states and EU Integration. Volume 6, Winter 1995.

<sup>12</sup> Commission of the European Communities, Decision of the Council and the Commission on the conclusion of the Europe Agreement between the European Communities and their Member States, of the one part, and the Republic of Estonia, Latvia and Lithuania, of the other part, COM(95) 297 final, Brussels, June 1995.

imported in such significant quantities and under such conditions that it may cause or threaten to cause serious injury to domestic producers, or result in serious disturbances to a sector of the economy, or cause difficulties which could bring about serious deterioration in regional economic health.

Since textiles, steel and coal sectors are considered sensitive sectors from the Union's point of view, the Agreement includes specific arrangements concerning trade in textile and clothing originating in Estonia. In practice, this means that exports of Estonian textiles to the EU may be made subject to quantitative limits on the following conditions: when EU imports of textiles originating in Estonia reach such increased quantities, or create such conditions, that may cause serious damage to the Community's production. In the cases mentioned above, the Community may request consultations in order to reach agreement on an appropriate quantitative limit.

Since 1 January 1995 no quantitative or other restrictions have been applied to agricultural products originating in Estonia or in the Community. There are, however, some special arrangements concerning processed agricultural products. The Community will grant tariff concessions for processed agricultural products. Estonia may also introduce duties on a limited number of agricultural products originating in the Community to protect its domestic production should it wish. Such duties, however, may be introduced unilaterally only before 31 December 1996; thereafter the duties require consultation with the Association Council. Given the particular sensitivity of agricultural markets (ie the significance of trade in agricultural products and the role of agriculture in Estonia's and the Union's economy), protective measures can be taken to prevent serious harm. In such cases, both parties agree to enter into consultations to find a solution.

The member states of the EU and Estonia also have agreed to progressively adjust any state monopolies to ensure that, by the end of 1999, no discrimination regarding the conditions under which goods are produced and marketed exists between nationals of the member states and Estonia. The Association Council will be informed about the measures adopted to implement this objective.

The Association Agreement sets the basic

principles covering movement of workers, establishment of firms and supply of services. Both parties grant each other's workers equal treatment as regards working conditions, remuneration and dismissal. Further, with a view to coordinating social security systems for workers of Estonian nationality, workers are all subject to the conditions applicable in each member state. Estonia, in turn, shall accord similar treatment to all workers who are nationals of a member state. The principles governing mobility of workers are based on the rules and legislation of the member state in question. By the end of 1999, if socio-economic conditions in Estonia have been improved close to those of the member states and if the employment situation in the Community permits, the Association Council will consider ways of further improving the movement of workers.

Regarding establishment of firms, the EU and Estonia grant companies treatment no less favourable conditions than that provided to their own companies or any other third country company, whichever is the better. This principle of equality also applies to subsidiaries and branches, Community/Estonian nationals and their operation. These provisions, however, do not apply to air transport, inland waterways and maritime transport services.

The parties agree to take the necessary steps to allow progressively the supply of services by the Union or Estonian companies or nationals. The provisions concerning the liberalization of services shall be progressively adjusted by the parties. In formulating recommendations to this effect, the Association Council shall take into account the respective obligations of the parties under the GATS (General Agreement on Trade in Services). The provisions stated above shall not apply to the tax advantages which the parties provide or will provide in order to avoid double taxation. In addition, nothing should prevent the adoption or enforcement of any measure by the parties aimed at preventing the avoidance or evasion of taxes, other tax arrangements or domestic fiscal legislation.

Referring to the provisions concerning payments and capital, any payments and transfers can be undertaken in freely convertible currencies. Once the Agreement is in force, the member states and Estonia will ensure the free movement of capital relating to direct investments as well as repatriation of these investments and any profit

stemming from them. The same principles are applied to portfolio investment, to credits related to commercial transactions and to financial loans. In addition, the member states and Estonia have agreed that they will not introduce any new restrictions on the movement on the capital and current payments. Both parties shall consult each other with a view to facilitating the movement of capital.

With regard to competition, the parties, in principle, refrain from actions which have as their object or effects the prevention, restriction or distortion of competition. This also includes any public aid, which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods. However, where one or more member states or Estonia is in serious balance of payments difficulties, or close to difficulties, the Community or Estonia can adopt restrictive measures, including measures relating to imports. These restrictions can last only a limited amount of time and may not go beyond what is necessary.

In respect of protection of intellectual, industrial and commercial property rights, both parties confirm the importance to ensure adequate and effective protection and enforcement of these rights. In particular, Estonia shall continue to improve the protection of intellectual, industrial and commercial property rights in order to provide, by 31 December 1999, for a level of protection similar to that existing in the Union. In case of problems, urgent consultations will be undertaken in order to reach mutually satisfactory solutions.

The EU and Estonia also recognize that an important condition for Estonia's economic integration into the EU is the approximation of Estonia's existing and future legislation to that of the Community. The approximation of laws should, in particular, be made in the fields of the internal market, competition, protection of workers, environmental protection, consumer protection, financial services, technical rules and standards. The Union shall provide Estonia with technical assistance for the implementation of these measures, eg the exchange of experts, the provision of early information especially on relevant legislation, organization of seminars, training activities and aid for the translation of Community legislation.

In the framework of the Association Agreement, the EU and Estonia have also agreed to further develop economic cooperation aimed at

contributing to Estonia's development and growth potential. The cooperation should concentrate, in particular, on policies and measures related to industry, investment, agriculture and the agro-industrial sector, energy, transport, regional development and tourism. In addition, special attention shall be devoted to measures that foster cooperation between the three Baltic states, and with the other countries of Central and Eastern Europe as well as the other countries bordering the Baltic Sea.

One of the new features of the Association Agreements signed between the EU and each of the Baltic States is cooperation in the prevention of illegal activities. The parties have agreed to cooperate preventing the following illegal activities in particular: illegal immigration, corruption, illegal trafficking in drugs, illegal transactions involving industrial waste and illegal trade in radioactive and nuclear materials. Cooperation in these matters will be based on mutual consultations and close coordination. Such cooperation includes technical and administrative assistance for the drafting of national legislation, enhancing the efficiency of institutions charged with prevention of illegal activities, the establishment of information centres and databases, staff training and the formulation of mutually acceptable measures to prevent illegal activities.

The Agreement includes provisions concerning cultural and financial cooperation. In respect of financial cooperation, and in order to achieve the objectives of the Association Agreement, Estonia shall receive temporary financial assistance from the Community. This will be in the form of loans and grants, including loans from the European Investment Bank (EIB), and will aim to accelerate the economic transformation of Estonia. The financial assistance shall be covered either within the framework of an indicative multiannual programme through Phare, within a new multiannual financial framework established by the Community following consultations with Estonia, or by loans provided by the EIB. The Association Council will be informed of the conditions under which this assistance will be provided and the obligations undertaken by Estonia concerning such assistance.

One of the main institutional players in this association arrangement is the Association Council, which consists of the members of the Council of the EU, members of the Commission of the EU

and members appointed by the Government of Estonia. The Association Council supervises the implementation of the Agreement and examines any major issues arising within the framework of the Agreement and any other bilateral or international issues of mutual interest. It can make recommendations and has the power to take binding decisions in the cases provided for it. The Association Council can be assisted by an Association Committee composed of representatives of the members of the Council of the EU, members of the Commission of the European Communities and representatives of the Government of Estonia.

The Agreement also calls for the establishment of the Parliamentary Committee, a forum for members of the Estonian Parliament and the European Parliament. The Parliamentary Committee may make recommendations to the Association Council as well as request relevant information from the Association Council regarding the implementation of the Agreement.

### 3.2 Latvia and Lithuania

The general principles of the Latvian and Lithuanian Association Agreements contain an important difference from the Estonian Agreement – a transitional period which ends, at latest, on 31 December 1999.<sup>13</sup> Otherwise, arrangements concerning political dialogue are same with those set between the Community and Estonia.

The EU and Latvia have agreed to gradually establish a free trade area in a transitional period starting on 1 January 1995 and lasting a maximum of four years. The main governing principles are those of the Association Agreement as well as those of the GATT and the WTO. In case of industrial products, customs duties on imports originating in Latvia or the Community, quantitative restrictions on imports into Latvia/the Community and measures having an equivalent effect have basically been abolished since 1 January 1995. There are, however, certain special arrangements concerning customs duties on imports originating in the Community. The Agreement

includes a list of industrial products on which customs duties shall be progressively reduced in accordance with the following timetable: by 1 January 1996 each duty was to have been reduced to 50 % of the basic duty and by 1 January 1997 all remaining duties are to have been eliminated. Moreover, the provisions concerning the abolition of customs duties on imports apply to customs duties of a fiscal nature. Customs duties on exports have been abolished between the Community and Latvia since 1 January 1995 with one exception in favour of Latvia. She shall abolish customs duties at the latest at the end of 1998 in case of the of a particular group of goods. All quantitative restrictions on imports as well as on exports were abolished by the Community and Latvia on 1 January 1995.

Rather similar principles govern movement of industrial products between the EU and Lithuania. Most of the customs duties have been abolished since the Free Trade Agreement. However, customs duties on imports applicable in Lithuania to groups of products originating in the Community shall be progressively reduced in accordance with the different timetables depending on the products in question. In some cases each duty was to have been reduced to 50% of the basic duty by 1 January 1996, and by 1 January 1997, the remaining duties shall have been eliminated. In case of the second group of products, each duty shall be reduced to 50 % of the basic duty by 1 January 1998 and by 1 January 2001 all remaining duties shall have been eliminated. In the third group of products, currently existing customs duties shall be abolished by 1 January 2001.

Since 1 January 1995, the Community and Lithuania have progressively abolished customs duties on exports. This excludes the customs duties applied by Lithuania to special group of products, which shall be eliminated by 1 January 2001. All quantitative restrictions on imports as well as on exports were abolished on 1 January 1995.

Both the EU and Latvia and Lithuania have declared a readiness to reduce customs duties in trade with the other partner more rapidly as long as the economic situation permits.

Textile products constitute a sensitive sectors from the EU point of view, so the principles of free trade do not purely apply to this sector. In general, according to the Association Agreements, exports of textiles from Latvia (originating in Latvia) or

<sup>13</sup> Commission of the European Communities. The Europe Agreement between the EU, of the one part, and the Republic of Estonia, of the other part, Brussels, June 1995.

from Lithuania (originating in Lithuania) to the Community shall be free from quantitative limits. However, quantitative limits may be introduced under conditions where the Community finds that the level of imports of products in a given category originating in Latvia/Lithuania exceeds, in relation to the preceding year's total imports into the Community from all sources of products in that category. Under these circumstances, the Community may request the opening of consultations with a view to reaching agreement on a appropriate restraint level for the products in that category. Further, both Latvia and Lithuania shall create favourable conditions for imports of textile products originating in the Community, provide to them non-discriminatory treatment as regards the application of quantitative restrictions, and granting licences and the allocation of currency needed to pay for imports. Latvia and Lithuania will also recommend to their importers to use the possibilities offered by the Community producer of textiles while providing the highest possible degree of liberalization to those imports taking into account the development of trade between contracting parties.

Since the Free Trade Agreement (1995) no quantitative restrictions, in principle, have been applied to imports into the Community of agricultural products originating in Latvia/in Lithuania nor to imports into Latvia/Lithuania of agricultural products originating in the Community. However, in the case of processed agricultural products, the Community and Latvia/Lithuania shall grant each other tariff concessions based on the same market disturbance principles already mentioned in the Estonia's Agreement.

Provisions governing movement of workers, establishment and supply of services in the Latvia's as well as in the Lithuania's Association Agreements are similar to those set between Estonia and the EU. Furthermore, regarding to payments and capital, the three Baltic Association Agreements are similar. In the area of competition, both Latvia and Lithuania can enjoy the transitional period until 31 December 1999.

As with Estonia, the Community and Latvia as well as Lithuania recognize that an important condition for Latvia's and Lithuania's economic integration into the Community is the approximation of existing and future legislation to that of the Community. Furthermore, the Community and

Latvia as well as the Community and Lithuania shall further develop economic cooperation especially in the areas such as industry, investment, agriculture, energy, transport, regional development and tourism. Finally, Latvian and Lithuanian Association Agreements include similar provisions to those of Estonian Agreement in the areas of cooperation in the prevention of illegal activities, cultural cooperation, financial cooperation and institutional provisions.

## 4 A Phare Deal

Basically, the Phare Programme is the EU initiative to provide funding to enable its partner countries prepare for membership in the Union and support its partner countries through the process of economic transformation and strengthening of democracy. A large proportion of the support provided has been in the form of know-how, including policy advice, consultancy, training and studies as well as support in reforming legal and regulatory frameworks and institutions. In particular, training has formed a substantial element of many Phare projects and covered all areas needed for the administration of a market economy, including economics, accounting, management, tax management, law, banking, marketing and personnel management. Phare has also provided investment support through pre-investment and feasibility studies and direct financing. It has acted as a multiplier by unlocking funds for important projects, which are unable to be started because they lack start-up capital or partners who are able to provide all of the funds needed. Phare has been implemented in close cooperation with international institutions to ensure consistency in policy and sector strategies and to avoid duplication of efforts. Phare has worked closely and provided know-how, training and supporting with the IMF, the World Bank and the EBRD.

The Phare budget is fixed by the EU's budgetary authorities, ie the European Parliament and the Council of the EU. After five years of operation (1990-1994), Phare had made available ECU 4,248.5 million to 11 partner countries. The Baltic states entered the Phare Programme in 1992 and by the end of 1994 had received funds of ECU 191 million. Over 80 % of Phare funds have been allocated to national programmes or to program-

**Table 5 Phare funding by country, 1990-1994 (ECU million)**

Estonia	44.5
Latvia	62.5
Lithuania	84.0
Multi-country programmes	722.7
other CEECs	3 334.8
<b>Total</b>	<b>4 248.5</b>

Source: What is Phare?, European Commission, Phare Information Office, Directorate General for External Political Relations, DG IA, Brussels 1995.

**Table 6 Phare funding by sector, 1990-1994 (%)**

Private sector development and enterprise support	21.9
Education, health, training and research	16.4
Infrastructure	13.8
Environment and nuclear safety	9.4
Agriculture	9.4
Humanitarian and food aid	8.6
Public institutions and administrative reform	4.9
Social development and employment	3.0
Others	12.6
<b>Total</b>	<b>100.0</b>

Source: What is Phare? European Commission, Phare Information Office, Directorate General for External Political Relations, DG IA, Brussels 1995.

mes involving more than one country. National programmes concern operations which are financed for a particular country on the basis of an agreed annual programme. In multi-country programmes Phare has acted as a catalyst for multilateral dialogue, cooperation and planning of actions that have implications for more than one country. Multi-country cooperation has been common in the areas of environment, energy, transport, nuclear safety, customs and the fight against illegal drug trade. Phare also includes cross-border and democracy programmes.

A unique feature of Phare funding is that its main priorities reflect the priorities and policies of its partner countries. Phare adapts (or at least tries to adapt) to the requirements of reforms in each country. It acknowledges that each country is different and is at a different stage of transition, with its own views on the timing and measures

needed. A condition of Phare funding is that each country maintains a commitment to democracy and progress towards a market economy. Phare's partner countries, in turn, decide on the priority areas for spending the funds which then must be agreed with the European Commission. This joint process results in Indicative Programmes which cover a three-year period. Based on these programmes, Phare determines in coordination with the partner countries how best to execute a given project. The individual country is responsible for implementing its programmes.

In general, Phare priority sectors have focused on fundamental political, economic and social changes. Naturally, transition from a centrally planned economy to a market system requires a different approach. Banks are adapting to the lending needs of a private sector and governments are in the process of establishing public adminis-



trations adapted to their market economies and democracy. Individuals are changing attitudes. New skills are required due to new responsibilities. Given that, the key areas which account for the majority of Phare funds have included restructuring of state enterprises and private sector development, agricultural restructuring, public administration and institutional reform, reform of social services and employment, education and health, infrastructure, environment and nuclear safety.

Private sector development and enterprise restructuring has accounted over 20% of Phare funds<sup>14</sup>. The aim has been to increase production efficiency and output through privatization and enterprise restructuring, development of small and medium-sized businesses, and through modernization of banking and financial services. For example, over 70 Business Support Centres are operating with Phare's help. Phare pays for know-how to help set up small and medium-sized businesses, to prepare business plans and to apply for loan schemes. In Estonia, Latvia and Lithuania, a total of nine units were operating by the end of 1994. By preparing the ground for major foreign investment in a state-owned company, Phare has provided legal and financial advice to partner countries during negotiations, and also has helped to set up the regulations and incentives. In Lithuania, Klaipeda tobacco plants entered into a joint venture with Phare assistance to become one of the largest individual private investments in the Baltic States.

In the area of agricultural reform, Phare assistance has focused on developing reform strategies and policies and supplying the imports necessary to maintain essential levels of food production. In the future, the support will move towards the implementation of reform strategies including restructuring and privatizing state enterprises and farms. In addition, future support will focus on developing land reform and registration systems, strengthening and training rural banking services, establishing independent rural cooperatives and providing market information and forecasting systems for major commodities.

Referring to public administration and institutional reform, Phare has focused on training civil

servants, helping governments to restructure individual ministries and putting in place new budgeting and financial systems. The main aim has been to strengthen the ability of central government to manage change and decentralise services to local government level.

Phare has also been working with central and local governments to design social and employment policies and to reform or set up the systems and networks necessary to deliver services. This work has included, among others, reforming pension systems, retraining staff and introducing new registration and payment systems.

Within education, Phare has been helping to establish links between education, training and research institutions in the partner countries and their counterparts in the EU. The work in the health sector has, in turn, focused on training staff and supporting the development of primary and preventative health care facilities.

In the area of infrastructure, the main help has been allocated to the restructuring of the transport, energy and telecommunication sectors. In particular, attention has been drawn towards energy sector, where artificially low prices have encouraged inefficient production techniques and high consumption, which, among other things, has added to environmental problems. Phare support in environmental area has covered the supply of equipment to monitor air and water quality, studies on specific problems as well as help in establishing standards and legislation. Environmental support is increasingly moving towards developing strategic policies and programmes for specific sectors such as waste treatment. Phare's activities have also focused on nuclear safety. The work in this area has included safety studies, improving management and control procedures and setting up alert systems.

As transition proceeds, Phare's focus will shift away from the provision of know-how towards investment to support the economic, social and physical development needed to meet the requirements of integration.

## 5 The White Paper - Good News or Bad News?

The third aspect of the Baltic's strategy towards

<sup>14</sup> What is Phare?, European Commission, Phare Information Office, Directorate General for External Political Relations, DG IA, Brussels 1995.

membership is defined in the framework of the White Paper of May 1995 concerning the approximation of laws.<sup>15</sup> The main objective of the White Paper is to prepare the Associate Countries of Central and Eastern Europe for integration into the internal market of the Union. However, the White Paper provides only general guidelines. Each CEEC is expected to establish its own priorities, timetable and design individual approximation programmes in the light of its economic, social and political realities and depending on the progress made so far.

From a purely technical point of view, the following elements have been designed to help guide the associated countries in planning approximation programmes. First, the paper includes a general introduction to each area of legislation, which describes the underlying objectives and methodology of Community legislation. The second element constitutes of a summary of conditions necessary to operate the relevant instrument of Community law, including both legal and organizational structures. Finally, the third element of the paper includes the identification of key measures and proposed sequence for approximation within each area of legislation.

The 438-page White Paper is not only a "guidebook", it provides a great amount of detailed explanation on approximation of laws. Here, we shall examine only a few key areas relevant specifically to the Baltic countries.

The Baltic countries face the greatest challenges in the following areas. The first area constitutes of laws that help to create a secure and predictable framework within which business can operate. This includes, for example, company law, bankruptcy law and contract enforcement. In addition, special attention is to be drawn towards laws relating to the operation of the financial system and laws that protect intellectual property rights. Finally, the Baltic states must establish a compatible and complementary competition policies.

To create a suitable environment for companies to operate in Europe, national laws must be harmonized. Such a harmonization has to remove obstacles to a firm's freedom to establish operations, and must provide an equivalent degree of

protection throughout the Community. Legislative approximation in the field of corporate law requires the existence of a register for undertakings and a national gazette for the publication of information such as a company's organization, financial details, and system of publicity to inform third parties. Further, there must be an administrative or judicial authority which will ensure the control of the incorporation of a company or the legality of certain acts. There must be independent experts who will evaluate the financial situation of the company in different stages of its function. Finally, there must be a system for training administrators in how to establish and run modern, globally competitive businesses. The establishment of regulatory structures such as private or public sector bodies is not, however, required for the approximation of company law.

Another requirement for a successful transition in the Baltic countries is the creation of a well-developed financial sector. The financial sector is one of the key elements for economic performance because via the financial sector private savings and other available capital is allocated to investment. The financial sector coordinates economic activities so that they result in the most productive use of available capital. Legislative approximation in this field requires the existence of a basic legislative environment. This means regulations concerning the establishment of companies, regulations concerning accounting as well as rules for controlling or auditing the companies. A condition for the functioning of the financial sector is the establishment of an effective settlement system to deal with transactions between the different financial sectors. The most important first step is the establishment of a supervisory authority to oversee credit institutions. Furthermore, before stock exchanges can be established, it is necessary that laws concerning issues and ownership of securities are adopted. Finally, a precondition for the establishment of collective investment funds is that securities are issued and traded on regulated markets.

The third challenge for the Baltics concerns proper and effective protection of intellectual, industrial and commercial property (=intellectual property), which is essential for making the most of human ideas and creativity. Intellectual property is vital to the construction of a modern society and to emergence of innovative and high-quality goods and services. The protection of intellectual prop-

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<sup>15</sup> Commission of the European Communities, White Paper, COM(95) 163 final/2, Brussels 10.5.1995.

erty must be rooted in the principles of civil law. It covers the number of different types of property rights such as patents, trademarks, copyright and related rights, industrial designs etc. On the administrative side there must be an industrial property office with proper computer support and competent and well-trained staff. Customs and police authorities may also be called upon to play a part in the fight against fraud by preventing the movement of fake goods. On the judicial side, enforcement requires a structural system of courts, with specialized courts able to handle questions of intellectual property law and a possibility to appeal against the decisions of lower courts.

Finally, the Baltic countries also need to improve their competition policy, which is one of the essential elements constituting a cornerstone for the creation of internal market as well as a precondition for the accession to the Union. Competition law can be divided into four sectors: state aids, merger control, restrictive agreements and abuse of dominant positions as well as state monopolies and public undertakings. In order to guarantee the establishment of a state aid system, it is necessary to create a monitoring authority and adopt procedural rules. It must be ensured that this authority receives all the necessary information from the other relevant government departments and has the necessary expertise in the area. This will require, in parallel to the process of legislative approximation, intense technical assistance. Technical assistance should be foreseen for the setting up of the system as well as for the training of the relevant officials in order to create the necessary expertise.

In order to guarantee the establishment of a viable merger control system, it is important to create an authority which has the necessary power for the efficient implementation of merger control rules. Further, it is necessary to create a well-functioning court system with sufficient expertise in the area. These same requirements apply to agreements and abuse of dominant market positions. Finally, regarding to state monopolies and public undertakings, it is necessary to have a separate legal personality for public undertaking or undertaking granted special or exclusive rights. This requirement is necessary in the case of telecommunications and desirable in many other sectors.

After looking at only a few areas of the White

Paper, one can see that may be both encouraging and discouraging. It is encouraging since it provides very detailed, step-by-step advice, much like a guidebook. On the other hand, the White Paper clearly gives an idea of the enormous amount of work to be done. As a consequence, from the Baltic as well as other CEEC's point of view, EU membership may appear too daunting. Many of these countries started their reform process practically from zero and have been developing their own legal systems less than five years. In the game of catch-up they are being asked to play, they may indeed wonder if they will ever meet the requirements for membership. In addition, although each country is free to set its own priorities, timetable and to design individual approximation programmes, there is a danger that countries where the transition process is slower will have to take a back seat to countries where more progress have been achieved. As a consequence, slower developing countries may seek higher risk strategies while trying to meet the admission criteria, only to end in economic or political failure.

## 6 When and how?

Perhaps the most interesting and most difficult questions remains unanswered: When should accession talks for the Baltic states begin, and how will these negotiations be run? Obviously, the opinions and estimates of the EU and the Baltic states differ.

From the EU point of view, there is nothing in principle preventing simultaneous opening of negotiations with all Baltic countries. In fact, the EU probably would prefer to deal with the Baltic states as a single entity. However, since the transition and economic as well as political reforms in the Baltic countries are proceeding at different speeds, it may be that the EU will have treat each Baltic applicant on an *à la tête du client* basis. This, of course, would suit the Baltics as they have argued all along that each applicant country must be dealt with separately on its own merits.

The Baltic states demand definite schedules and exact dates for accession, while the EU refrains from doing so, explaining that it is better for everybody's sake not to set any timetable since

there are still so many unknowns to be answered.<sup>16</sup> All of the Baltics are ready to suggest possible schedules. Latvia announced earlier this year that it is aiming at full membership within ten years.<sup>17</sup> Estonia has specified that its accession negotiations should begin "at latest" six months after the end of the IGC.<sup>18</sup> Lithuania recently announced that it planned to become member by the year 2000 and demanded the EU answer whether that was possible or not.<sup>19</sup> So far, EU officials have only politely responded by saying that it would be premature to offer a timetable at this point. Negotiations may begin, at earliest, in 1998, only after the IGC is completed.

Although the IGC will have to conduct its work in the perspective of an enlarged EU, it will not settle problems of enlargement as such. In an enlarged Europe, the economic and social gap between the new members and older members would be quite pronounced at the start. According to the Community's calculations, enlargement would involve a Community contribution, in current circumstances, of ECU 60 billion a year for the Visegrad Countries (the Czech Republic, Hungary, Slovakia and Poland), at least doubling the contribution requirement for each current Member state.<sup>20</sup> With an extra 100 million citizens

(all CEECs included), the populations of the EU would increase 25 %, yet the CEEC populations would, at their present level, only contribute 5 % of the EU's wealth creation. Further, accession of countries with weak social security systems could cause serious distortions within the Internal Market. What will probably happen is that the decision-making process will be altered. First, there would be a more qualified majority voting to imbue fairness into the decision-making process. The increase in the number of small countries due to enlargement will call for a correction against the present favoured status of smaller members, because in the current system small countries have proportionately more votes than larger countries. The EU must make sure that the achievements of forty years of European integration are not skewed by a bunch of small, but vote-wise powerful, countries with selfish interests.

Today nobody can specify the exact admission criteria or consequences of enlargement to the Baltic countries. Thus, we must all wait for the ratification of the Association Agreements. In the meanwhile, it is probably most valuable to keep a close eye on economic development in the Baltics and their approximation of laws according to the White Paper.

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<sup>16</sup> See Financial Times 18.4.96 and Europe Documents No 6627-6711/96.

<sup>17</sup> Helsingin Sanomat 27.3. 1996

<sup>18</sup> Europe Documents, No 6697, March 1996, European Commission.

<sup>19</sup> Europe Documents, No 6707, April 1996, European Commission.

<sup>20</sup> Europe Documents, No 6638, 8 March 1996, European Commission.

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