

BULGARIA AND ROMANIA TO JOIN THE EU ON 1 JANUARY 2007



Short note

On 26 September, the European Commission published the monitoring report on Bulgaria's and Romania's preparedness for EU accession. Due to the solid progress achieved, the report considers that both the Balkan countries will be **prepared to take on the rights and duties of EU membership as soon as on 1 January 2007**. This has been stated regardless of the fact that the Commission pointed out a number of areas to be improved. Particular emphasis was put on addressing the reform of the judicial system and the fight against corruption.

History of relations with the EU

It will be **nearly 7 years** from the initiation of accession negotiations in February 2000. Bulgaria concluded all accession talks in June 2004, Romania six months later. Both countries submitted their application for EU membership in 1995.

Accession of Sofia and Bucharest was decided at the EU summit in December 2004. The legal base is the **Accession Treaty** signed by the representatives of the current EU-25 and both the countries in April 2005. The Treaty stipulates that Bulgaria and Romania will accede to the EU on 1 January 2007, unless the EU Council, upon the EU Commission's recommendation, decides that the accession be postponed until 2008 due to insufficient preparedness. The Commission has decided that the protective one-year clause is not necessary and the accession will take place in January next year.

The EU accession of Bulgaria and Romania will symbolically **complete the 5th largest enlargement** in the history of the European Community, which commenced with the accession of the ten new Member States, including the Czech Republic, in May 2005.

Stages of EU/EC/EEC enlargement

Date	Event	Country
1.1.1958	establishment of European Economic Community	Belgium, France, Italy, Luxembourg, Germany, Netherlands
1.1.1973	1 st wave of enlargement	Denmark, Ireland, United Kingdom
1.1.1981	2 nd wave of enlargement	Greece
1.1.1986	3 rd wave of enlargement	Portugal, Spain
1.1.1995	4 th wave of enlargement	Finland, Sweden, Austria
1.5.2004	5 th wave of enlargement – first stage	Czech Republic, Estonia, Cyprus, Hungary, Malta, Lithuania, Latvia, Slovakia, Slovenia, Poland
1.1.2007	5 th wave of enlargement – second stage	Bulgaria, Romania

Accession safeguard clauses

Based on the experience from the recent EU enlargement in 2004 and in order to avoid any potential risks, the Commission recommends imposing a number of **rigorous safeguard clauses** that may be applied to Sofia and Bucharest in case of deceleration or interruption of their reforming efforts. The clauses include safeguard measures, transitional periods, financial sanctions and a special cooperation mechanism for the judiciary and will complement the standard EU procedures related to the breach of EU law.

1. Safeguard measures

The focus of the safeguard measures is to remedy problems or threats to proper functioning of the EU policies resulting from the enlargement and may be applied **up to three years after the accession** of either country to the EU. The European Commission intends to introduce the following measures:

a) General economic safeguard measure

These are the **traditional trade policy safeguard measures** aiming to deal with difficulties in economic sectors in old or new Member States experienced as a result of accession. During a period of three years the EU-25 and Romania and/or Bulgaria may apply for protective measures; the European Commission will decide on such measures.

b) EU internal market safeguard measure

If Sofia and Bucharest fail to implement internal market EU directives or regulations applicable to the single internal market operation, the European Commission may take safeguard measures. Such measures may be taken until three years after accession but they may apply until the situation is remedied. If necessary the measures may be taken prior to the date of EU accession.

The EU internal market safeguard measures may cover the **four fundamental freedoms** (freedom of movement of persons, goods, services and capital) and **other sectoral policies** such as competition, energy, transport, telecommunication, agriculture or consumer health and protection.

c) Justice and home affairs safeguard measure

If there is a serious risk in either country of shortcomings in the implementation of EU rules regulating **mutual recognition of judgements in criminal and civil law**, the Commission may, after consulting the Member States, take safeguard measures. They may cover the European Arrest Warrant, matrimonial matters and matters of parental responsibility, insolvency, etc.

Following an application of the justice and home affairs safeguard measure, the Commission may for example authorize the current Member States to refuse automatic recognition and enforcement of the European Arrest Warrant by Bulgarian or Romanian courts.

2. Transitional periods

For up to three years after accession, the Commission may **prevent the export of Bulgarian or Romanian products**, which do not comply with EU veterinary and phytosanitary rules and food safety rules. A specific example is the export of live pigs and pork meat from Bulgaria and Romania to the rest of the EU that will remain banned as long as classical swine fever has not been eradicated.

Food establishments that do not comply with EU standards will be added to a **special list of firms** banned from exporting their production to the rest of the EU.

Except for those transitional periods proposed by the Commission in the assessment report, there are **transitional measures laid down in the Accession Treaty**. They apply to similar areas as in the Czech Republic: free movement of workers, acquisition of land, road transport, environment, agriculture etc.

3. Financial corrections

Upon accession, Bulgaria and Romania will benefit from generous budgets of the EU structural funds and common agricultural policy. The Commission will ensure that these funds are used properly; improper use of the funds will lead to **financial corrections**. These may consist of delayed payments, reduction of allocations or, in the last resort, recovery of funds.

For structural funds and Cohesion fund, the following standard control procedures or corrections may apply:

- approval of operational programmes,
- creation of adequate management, certification and audit authorities to obtain payments,
- option to interrupt or cancel aid in case of suspicion or detection of cases of fraud or corruption,
- financial corrections resulting from ex-post controls.

Standard instruments requiring establishment of an accredited payment agency or operation of integrated administrative and control system for direct payments and parts of rural development expenditures will also apply to the use of agricultural development aid. In addition to these mechanisms applicable to all Member States the Commission intends to create special rules upon which the agricultural aid allocation in Bulgaria and Romania may be decreased by 25% next year.

4. Cooperation and verification mechanisms for the judiciary and the fight against corruption

The European Commission will establish special mechanisms to cooperate and verify progress within **the judiciary, and the fight against corruption and organised crime** after accession. Both countries will be provided with internal and external expertise to cooperate and provide guidance in the reform process to the maximum extent possible. The Commission will then report to the European Council and the Parliament on the progress made by Sofia and Bucharest in these areas. The precise mechanism will be stated in the Commission's decision to be adopted following a consultation with the current Member States.

Reports on progress in the judiciary, and the fight against corruption and organized crime will be regularly presented by both countries; the first report will be presented by 31 March 2007.

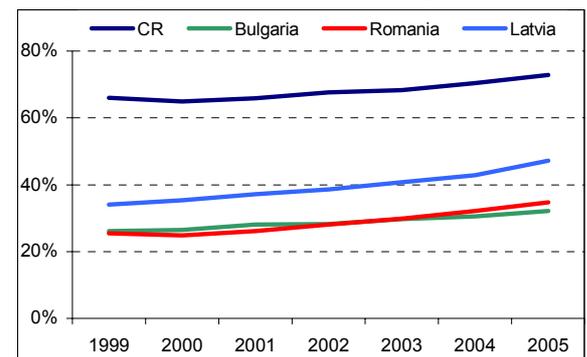
Economic impacts

Both countries will rank among the **least developed countries**, but there is no need to worry about their impact on the EU economy. The countries are economic **minnows**. Bulgaria and Romania will make up only 0.9% of the EU GDP (Romania 0.7%, Bulgaria 0.2%), similarly to the Czech Republic. Romania will make up 4.4% of the EU population, i.e. 22 million, and Bulgaria 1.6%, i.e. 7.8 million.

Both countries have **focused on the EU** economically for several years already; there are no significant trade barriers and that should mitigate any potential shocks.

With respect to GDP indicator per capita according to purchasing power parity, the countries will be among the poorest in the EU. The average GDP per capita in **Bulgaria and Romania** in 2005 was **32.1% and 34.7%, respectively**, of the EU-25 average (expressed in purchasing power parity). Comparably, the poorest Member State so far is Latvia, where the indicator is 47.2%.

GDP per capita in PPS to EU-25 average



source: Eurostat

Key economic indicators in 2005

	EU-25	CR	Bulgaria	Romania
Inflation	2.2 %	1.6 %	5.0 %	9.1 %
Unemployment rate	8.8 %	7.9 %	10.1 %	7.7 %
GDP year-on-year growth rate	1.7 %	6.0 %	5.5 %	4.1 %
Public balance / GDP	-2.3 %	-2.6 %	+3.1 %	-0.4 %
General government debt / GDP	63.4 %	30.5 %	29.9 %	15.2 %

source: Eurostat, note: inflation and unemployment rate are averages in the year

Further EU enlargement

Considering further EU enlargement, we are rather **pessimistic**. As shown in opinion polls, citizens of a number of “older” Member States have not come to terms with the most recent EU enlargement in May 2004 and they are not favourably inclined to the accession of further states. The EU leaders even use the term “**EU absorption capacity**” and argue that the capacity is not unlimited.

That is also why we believe **that by 2015**, except for Bulgaria and Romania, **only Croatia may access to the EU**. Turkey, already negotiating with the EU on the conditions of its accession, FYROM – Macedonia also officially considered a candidate country, and other states interested in accession (Albania, Bosnia and Herzegovina, Montenegro, Serbia) will not obtain EU membership over a medium term horizon, in our estimation.

Following the rejection of the Constitutional Treaty in France and the Netherlands last year, the EU is dealing with a number of internal problems, as confirmed by President of the European Commission José Barroso, who commented on the assessment report: “I believe that an institutional settlement should precede any further enlargement.” The EU is not ready for further enlargement **legislatively** since the current primary law, last amended by the Nice Treaty, stipulates only the accession of Bulgaria and Romania.

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