
SWEDEN
FINLAND
ESTONIA
LATVIA
LITHUANIA
DENMARK
IRELAND
UNITED KINGDOM
NETH.
GERMANY
POLAND
BELGIUM
LUX.
CZECH REPUBLIC
SLOVAK REPUBLIC
FRANCE
AUSTRIA
HUNGARY
SLOVENIA
ITALY
PORTUGAL
SPAIN
GREECE
CYPRUS
MALTA
European Union
Current EU members
Candidates for EU membership in 2004

Enlargement of the European Union

Expanding Opportunities

by the Central and Eastern Europe Business Information Center, the Office of Europe, and the U.S. Mission to the European Union

The organization we know as the European Union was inspired by a vision of a new Europe that would transcend antagonistic nationalism and become in essence a united states of Europe. Such was the inspiration put forth by Jean Monnet and solidified by the Schuman Plan, which led to the creation of the European Coal and Steel Community (ECSC) in 1951. Central to this plan was the idea that local, regional, national, and other European authorities should cooperate with and complement each other. The functional approach, however, put forth a plan that would allow for the gradual transfer of sovereignty from national to community level. In the 52 years since the creation of the ECSC, the European Union now allows for the free movement of workers, goods, and services as well as a common currency, policies, and jurisdiction over social, regional, and environmental matters. In the development of the union, four rounds of accession have enlarged the community from the original six to its current 15. The union is preparing to admit 10 new members in May 2004, the largest accession in the history of the European Union.

At a summit in Copenhagen in December 2002, leaders from the 15 EU member states agreed on the accession of 10 countries: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Future enlargement plans include Romania and Bulgaria, which are on course to join in 2007.

This enlargement is significant on many levels. It poses a unique challenge in that it is the largest in terms of scope and diversity. The 10 new members will contribute an additional 34 percent in geographic area, 75 million people, and a wealth of culture and history. That the majority of the candidates are former Eastern bloc nations is momentous in terms of a changing Europe. This addition of members is also the culmination of more than a decade of economic and political change in both the European Union and the acceding countries.

To join the European Union, each candidate country must have:

- Stable institutions that guarantee democracy, the rule of law, human rights, and respect for and protection of minorities;
- A functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the union; and
- The ability to take on the obligations of membership, including adherence to the aims of political, economic, and monetary union.

THE ACCESSION PROCESS

For the 10 candidate countries poised to become members of the European Union, the road to accession has been lengthy and complicated. It has required the candidate countries to harmonize many aspects of their commercial and legal systems with EU standards, as well as make broad

economic and administrative reforms. As part of this process, the accession candidate countries have adopted the common body of EU law that governs areas such as foreign policy; movements of goods, persons, and capital; transportation, telecommunications, and the environment. There are 31 discrete areas or chapters of common law that candidate countries must adopt. While this is an enormous task, the benefits are significant. When completed, this round of accession should add more than 75 million new consumers to the single EU market.

The accession process has created many opportunities for U.S. firms, particularly in the candidate countries in Central and Eastern Europe, a region that is still working to overcome decades of political and economic isolation fostered under communism. Companies in future member states face the task of integrating into the highly competitive and heavily regulated EU environment. This process is creating opportunities for U.S. firms, particularly those with expertise in information technologies, telecommunications, infrastructure, energy, and environmental technologies.

REFORM IN PREPARATION FOR ACCESSION

There are many benefits of enlarging the European Union. The unprecedented increase in the population of EU citizens will boost economic growth and create jobs in both existing and new member states. The quality of life throughout Europe will improve as new members adopt and enforce EU policies regarding environmental protection, crime prevention, drug trafficking, and illegal immigration.

The success of this enlargement will hinge both on the member states' fulfilling their obligations and the receptivity of current members to EU expansion. While the European Union has already agreed on the budgetary means for enlargement, it is not fully prepared to translate the political agenda set in Copenhagen into institutional terms. The convention on the Future of Europe (comprised of representatives of EU member states and EU institutions) is expected to devise a new framework and structures for a feasible, enlarged European Union. The convention is currently drafting a constitution that will streamline decision-making procedures, provide for one "legal personality," and exert more control over foreign affairs. The constitutional treaty will attempt to address how the European Union can change its institutional and political framework to adapt to enlarging by nearly one-third of its current "domain."

An enlarged European Union must become more democratic, more transparent, and more efficient. The union will have to find a single European voice in the world to match its continental dimension and responsibility.

DOING BUSINESS IN AN ENLARGED EUROPEAN UNION

On the whole, enlargement will benefit U.S. exporters. When the candidates join, they will

Czech Republic Passes Tests

Government Transition, EU Accession Bode Well for Foreign Direct Investment

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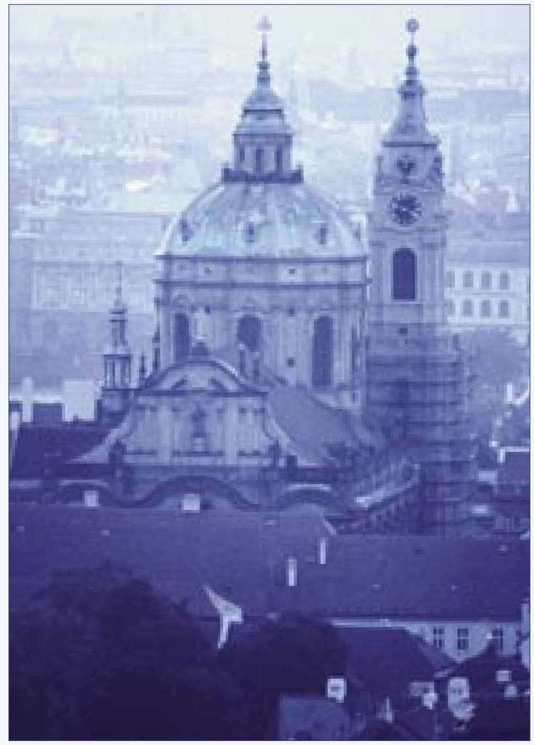

Investors take note. The Czech Republic has proven itself a leader among Europe's emerging economies. A dozen years of democratic and economic development helped the country weather the worst flood in 100 years last summer, survive a government transition, and build momentum toward EU membership.

Some outsiders viewed the center-left government that emerged in 2002 as a potential obstacle to foreign investment. A sign that this would not be the case came in the government coalition's commitment to maintain a low inflation rate and continue the drive toward EU membership, which a growing number of Czech citizens also support. That this was the policy of the previous government is no coincidence. Nine of the 18 ministers in the new government served in previous governments. This level of continuity from ruling coalition to ruling coalition will ensure economic stability and a degree of comfort to most investors. However, that the Czech Republic can change governments at all and keep in stride economically should signal to foreign investors that the political and economic development that has taken place in the Czech Republic over the past 13 years has created a stable investment environment.

The growing support for EU membership by the Czech people further strengthens the country's ability to secure and protect foreign investment. EU membership lays the groundwork for economic transition; hastens the flow of technology, goods, and services into the country; and encourages the export of products and services. However most of all, it makes it safer for foreign investments into the region.

In the 1990s, many U.S. companies looked to the then Czechoslovakia with the expectation that the highly educated and technically skilled citizenry of the country would soon join the economies of the West. Over the years, the productivity of the Czech labor force has greatly improved, and the income gap has shrunk. While further foreign direct investment is required to close a substantial part of the income gap, the average Czech worker in 2003 is a more productive worker and a more prolific consumer. Now it appears that the economy and democratic institutions are also ready to meet the needs of foreign investors.

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EU Currency for Most Members

The European Union includes the so-called euro zone or area, where the EU currency circulates. The euro zone is comprised of 12 countries and some 300 million people. Use of the euro eliminates the need for currency exchange, therefore removing one of the most fundamental costs of cross-border business. This facilitates trade and investment within the zone.

The euro was originally just an accounting currency. It was introduced in 1999 as a “virtual” currency existing alongside the member states’ national currencies. From 1999 to 2002, the euro was used for writing checks and credit card payments, but there were no notes or coins. This transition period gave companies time to switch their bookkeeping and financial systems to the euro. The changeover to euro cash, with new notes and coins in the participating member states, began on January 1, 2002. Member states’ national currencies were taken out of circulation within two months following the introduction of the euro. The transition to the single EU currency has been very smooth. The euro, worth $1.07 in early February 2003, has appreciated against the dollar by about 20 percent since its debut as a “real” currency last year. The European Central Bank has set interest rates covering the euro zone since 1999.

Twelve member states of the European Union have adopted the euro: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. Three member states have not adopted the euro: Denmark, Sweden, and the United Kingdom. However, Sweden’s government has set September 14, 2003 as the date for a referendum over adoption of the euro. The government of Denmark announced recently that it plans to hold a referendum on the euro sometime in 2004, its second since introduction. The United Kingdom has not yet set a date for a referendum on the euro.

At a summit in Copenhagen in December 2002, the European Union formally announced the schedule for bringing 10 additional countries into the union in 2004, successfully culminating many years of planning and negotiations for EU enlargement. On May 1, 2004, the following countries will join the union: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. The new members will not automatically adopt the euro upon accession. First, they must join the exchange rate mechanism (ERM), under which their currencies will be able to fluctuate only plus or minus 15 percent from a central rate. If these countries successfully operate within the ERM regime for at least two years as well as meet exacting criteria regarding budgets, debt, inflation, and long-term interest rates, they will then be eligible to join the euro zone. The new EU member states must eventually adopt the euro, but the timetable for actual adoption is not definite.

have satisfied all requirements of membership, but will still be responsible for aligning to all EU international commitments, including those undertaken in the framework of the World Trade Organization. The new member states will be required to adopt the EU Common External Tariff in its entirety. On average, weighted industrial tariffs in accession states are higher than those in the European Union. Therefore, U.S. exporters should see benefits in terms of lower tariffs. For example, Hungary currently imposes average tariff rates of 13 percent on goods imported from countries, such as the United States, that have most-favored nation status, but are not party to preferential trade agreements with Hungary. After EU accession, average tariff rates in Hungary will immediately drop to EU levels (currently 4 percent). Tariff reductions will make U.S. products more competitive in accession country markets.

EU enlargement will also reduce other trade barriers. Currently, U.S. exporters must occasionally re-certify goods destined for accession countries, even though these goods are already EU-certified. The same can be said for harmonizing with EU standards. Adapting products to meet local standards in small markets such as those of the accession countries is often prohibitively expensive for U.S. exporters. Therefore, enlargement should improve market access, as U.S. firms will only have to conform to one standard and certification process for the entire region.

U.S. companies are eager to see the acceding countries start enforcing intellectual property rights, including patents on pharmaceutical products. Health authorities have favored domestically produced pharmaceuticals over imports. Enforcement of competition policy with regard to pharmaceuticals will be more rigorous after EU enlargement. In addition, the overall cost of doing business in accession countries

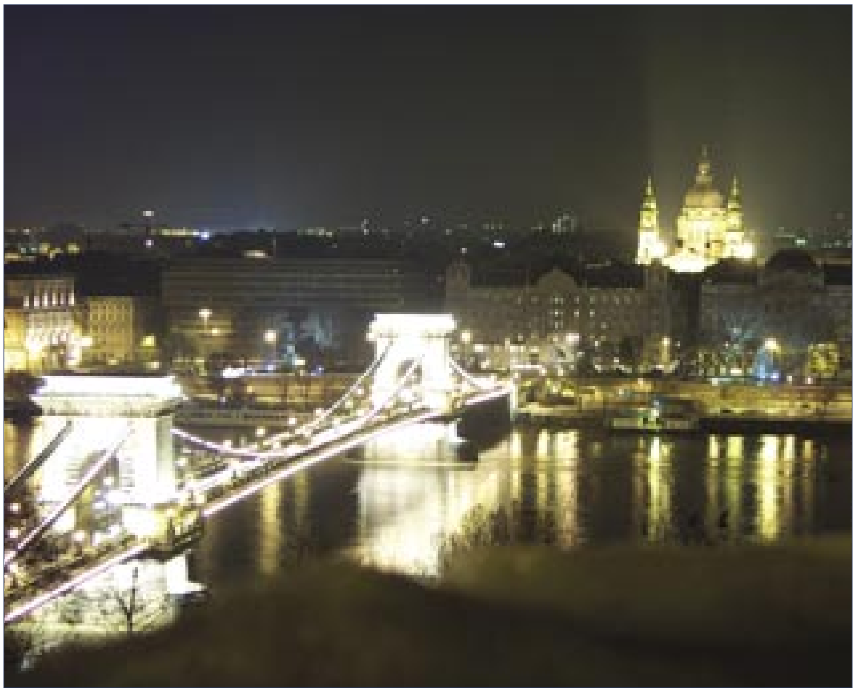

Photo courtesy of Steve Hubin.

will fall as U.S. exporters consolidate sales organizations and simplify corporate structures.

For certain products, the European Union has taken interim steps to extend the benefits of the single market to accession countries with regard to conformity assessment for product approval. This has been accomplished through bilateral pre-accession agreements, which are in force in Hungary, the Czech Republic, Latvia, and Lithuania. These countries will accept certain products tested and certified for the EU market without additional national requirements. Additional countries are expected to sign such pre-accession agreements (PECAs in EU parlance) in the near future.

All accession states must align to EU commitments under the General Agreement on Trade in Services (GATS). Integration into the single EU market and adherence to the GATS improves the environment for U.S. and other third-country service providers.

Since the European Union and its member states are party to international agreements under the World Trade Organization, accession states must ensure that they are signatories to the various WTO agreements on civil aircraft, government procurement, and information technology. This will be particularly helpful to U.S. firms that sell to government entities.

Upon joining the European Union next year, accession countries will immediately adopt the exchange rate mechanism (see "Euro Matters" sidebar). They will not be allowed to adopt the euro immediately, but will do so when they are fully prepared. May 2006 is the earliest date on which any of the new members will be able to introduce the euro.

OPPORTUNITIES IN SPECIFIC INDUSTRIES

Information Technology

The United States is widely recognized as the world leader in information technology. As a result, the following areas are top export prospects in the accession candidates in Central and Eastern Europe: computer hardware, software, computer services, database design, network integration, and e-commerce. There are several factors driving the demand for information technology in Central and

Eastern Europe, two of which can be directly attributed to EU accession process. Companies in Central and Eastern Europe must reach an equal technological level with the European Union in order to be competitive with EU companies. Second, the governments of Central and Eastern European countries have instituted policies to promote growth in domestic high-tech industries. Their goal is to promote economic growth and establish their countries as high-tech hubs that will service the European continent. The European Union is striving to increase competition in this area and has implemented legislation to encourage investment in information society applications, including e-commerce.

Telecommunications

Accession candidates must also adopt EU directives on telecommunications. These directives affect the liberalization of telecommunications; regulation and establishment of tariffs for voice, data, and optical services (fixed, wireless, or otherwise); and other telecommunications and Internet services. The directives also affect digital signature and cable television sectors. While the mobile telecommunications sectors of candidate countries in Central and Eastern Europe are on par with EU members, substantial reforms must be made to the fixed telecommunications sector. In general, the number of fixed-line telephone customers falls far below EU standards. There is great potential for U.S. companies to help Central and Eastern European countries adapt this sector to match EU standards.

Transportation and Infrastructure

There are significant opportunities for U.S. companies in transportation and infrastructure. Candidate countries must bring road, highway, railway, aviation, and maritime systems into alignment with EU standards, creating opportunities for U.S. construction, engineering, and environmental technology firms. Alignment with EU standards requires the expansion of existing roads and highways and the construction of new highway systems as well as integration into the trans-European highway system. Ports and airports in accession countries require significant upgrades to comply with stringent EU safety, environmental, and noise abatement requirements. Countries must also implement safety and environmental upgrades.

Energy

As liberalization of energy sectors in Central and Eastern European candidate countries takes place, numerous opportunities for U.S. companies will materialize. Power plants, combined heat-and-power plants, and gasworks must be adapted to EU standards (for example, in replacing coal with oil, and using natural sources of energy). Accession countries must undertake significant reforms and upgrades of their domestic energy sectors. This will include upgrading national electricity grids and integration into existing EU power grids. Central and Eastern European countries must take steps to reduce waste and develop renewable energy resources, including solar, hydro, wind, and biomass technology. Finally, each candidate country must develop storage facilities to stockpile a 90-day supply of petroleum for emergency situations.

Photo courtesy of Steve Hubin.

The Environment

EU environmental policies are in most cases more stringent than those of acceding nations. Candidate countries must introduce new, aggressive environmental policies to match those of the European Union. To meet these new requirements, accession candidates need to obtain environmental technologies to reduce air, water, and industrial pollution, and to improve waste management. Europe as a whole is the largest export market for the United States in terms of environmental technologies. The United States is poised to do business in the following sectors: air pollution, waste management, water pollution, industrial pollution, nuclear safety, and radiation protection. Due to the enormous challenge of meeting stringent environmental standards, full implementation of the common body of EU environmental legislation will be complete only several years after accession. This lag period will allow U.S. firms to explore opportunities in the environmental technology sector well after these countries have become members of the European Union.

POTENTIAL ROAD HAZARDS

Enlargement will bring some additional hurdles for U.S.–EU trade relations. Historically, the United States has asked for compensation in the form of lower tariffs or enlarged quotas for U.S. exports after new entrants have been accepted into the European Union. This is especially true when acceding countries provided greater market access prior to joining the union than after. In addition, there may be trade issues with regard to steel, coal, and agricultural products, with the latter being the most contentious issue in both reform of the common agricultural policy of the European Union and the ongoing negotiations of the Doha trade round.

EU enlargement may also affect American investments in Central, Eastern, and Southern Europe. U.S. companies currently enjoy a significant commercial presence as investors in major sectors of the EU candidate countries. Most of these countries have bilateral investment treaties with the United States, designed to ensure that U.S. investors receive national or most-favored nation treatment and to protect them against performance requirements, restrictions on transfers, and arbitrary expropriation, as well as to provide access to arbitration. The bilateral investment treaties have played an important role in encouraging investment in the candidate countries by mitigating risk and providing greater certainty to investors.

The European Union has indicated that there may be incompatibilities between EU law and the obligations of the United States' bilateral investment treaties with EU accession candidates. The U.S. government is working with the European Commission and the governments of the candidate countries in an effort to avoid such possible conflicts, so as to preserve the treaties and continue to provide important protection to U.S. investors.

The accession countries are making progress in meeting their obligations for EU membership, including implementation of the legislation already

WEB RESOURCES

European Union On-line
www.europa.eu.int
This is the official, comprehensive site of the European Union.

Enlargement Weekly
www.europa.eu.int/comm/enlargement/docs/newsletter/latest_weekly.htm
This weekly newsletter, available on-line and by e-mail subscription, contains the most up-to-date information on enlargement, including current negotiations, business opportunities, and a detailed calendar of events.

EU Enlargement Press Corner
www.europa.eu.int/comm/enlargement/press_corner.htm
The site includes FAQs, public opinion research, press releases, photo galleries of candidate countries, and more.

Central and Eastern Europe Business Information Center (CEEBIC)
www.export.gov/ceebic
This U.S. Commerce Department site includes an EU accession link and a hotline for information on U.S. trade and investment opportunities in the candidate countries of Central and Eastern Europe.

Trade Information Center
www.export.gov/tic
For additional questions about exporting to the European Union, particularly accession candidates not covered by CEEBIC staff (i.e., Cyprus and Malta), call (800) USA-TRADE (872-8723).

U.S. Mission to the European Union
www.buyusa.gov/europeanunion
The U.S. Commercial Service staff in Brussels provides a wide range of information on EU standards, regulations, and certification; opportunities by country and sector; tenders and grants; and much more.

adopted in the union. If the acceding countries fall short of their membership obligations or the European Union fails to enforce obligations, the result will be distortions inside and outside of the union. To ensure that trade in a post-accession European Union has not become more restrictive, the World Trade Organization will conduct a comparison of trade from EU-15 to EU-25. WTO members would be entitled to claim compensation when the extension of a customs union has resulted in increases to bound rates on products for which these countries are suppliers.

THE U.S. DEPARTMENT OF COMMERCE AND EU ACCESSION

In order to better inform U.S. companies of the opportunities and impact of EU enlargement, the International Trade Administration has created an EU Accession Task Force. The goal of the task force is to assist U.S. companies in realizing trade and investment opportunities in the accession countries' markets. Two useful tools to keep U.S. firms informed on the accession process are an accession Web site (www.export.gov/ceebic) and hotline (202-482-9090). Both help U.S. companies identify export opportunities and interpret commercial changes in the region, as well as help them locate the Commerce Department's analysts for specific issues.

On the whole, enlarging the European Union from a market of 15 member states to that of 25 should prove extremely beneficial to U.S. industry. A single market of 455 million citizens, with a single set of tariffs and a single set of trade rules and administrative procedures, is undoubtedly tempting to many U.S. exporters that would like to expand in or enter the EU market.