

EU enlargement and the implications for Wales

a Report prepared for the wales European Centre

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Foreword

This report is based on research carried out between October 1999 and January 2000, when Richard Essex acted as a consultant to the Wales European Centre. Richard is uniquely placed to carry out this work. From 1997 to 1999, Richard was employed by the Welsh Development Agency and seconded to the Wales European Centre where his responsibilities included building links with other European regions.

The recommendations of the report are those of a consultant asked to advise on the question of the expansion of the European Union. While the recommendations do not represent a policy position adopted by the Wales European Centre, I believe that the contents of this report should be shared with the partnership.

We in the Wales European Centre see the enlargement of the EU as one of the most important European issues facing Wales, particularly if we adopt a perspective that looks beyond 2006 and the end of the current structural funds round. The work which Richard began is continuing. Recent changes to the organisation have allowed the focusing of resources on this question. Interregional linking is one of the responsibilities of the new Programmes Team.

The need for a strategic approach to the opportunities presented by European enlargement has become increasingly evident. Since this paper was first drafted, work towards a strategy has been progressing. A consultation exercise has been launched and the new team will continue to work for a Team Wales strategy for Wales in the new Europe.

I hope that this report will help towards the development of a strategy that has the support of the whole partnership.

Joseph Gallacher

Director

Wales European Centre

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This report could not have been prepared without the assistance of a number of people both inside and outside Wales. Colleague staff from the Wales European Centre (WEC) have given valuable advice, in particular Alexia Middleton and Yvette Vaughan Jones. Prior to the commencement of the report there had always been a close working relationship with Laurie Walker, the former Research Assistant for WEC, on matters relating to EU enlargement. Indeed, this report is a logical follow-on from Laurie's excellent WEC Paper No. 5, *Moving East – What Enlargement Means for Wales*, published in June 1999.

Informal consultations have also been undertaken with a number of representatives from the public, private and voluntary sectors in Wales over the past 12 months, including:

- the National Assembly for Wales (NAW);
- the four regional Economic Fora in Wales;
- the Welsh Local Government Association (WLGA) and individual local authorities;
- the Welsh Development Agency (WDA);
- Welsh consultant firms, in particular Cardiff and Vale International, ERES, and the Crown Agent's Office in Wales;
- locally-based organisations, such as South Pembrokeshire Action for Rural Communities (SPARC).

Apart from the WEC Paper No. 5 referred to above, other useful source material has been obtained from:

- Chancellery of the Prime Minister of the Republic of Poland (Dec 1998). *A New Poland for New Challenges*.
- Dr Susan Baker (June 1999). *Proceedings of the Joint Conference on EU Enlargement Held in Pontypool*.
- Committee of the Regions (Sept 1999). *Preparing for EU Enlargement: Devolution in the First Wave Candidate Countries*.
- FCO Twinning Unit (Feb 2000). *First Annual Report on Twinning*.

Other useful information can be obtained from:

- Centre for European Policy Studies (1999). *Trade and Investment in Europe – The Impact of the Next Enlargement*.
- European Round Table of Industrialists (1999). *The East-West Win-Win Business Experience*. (Accessible on the website of DG Enlargement, European Commission).

Executive summary

The current proposals for the enlargement of the European Union are generally based upon the contents of the Commission's Agenda 2000, published in 1997. In this document, EU enlargement is identified as one of the key policy areas for the period 2000 to 2006. Since 1997, procedures have been put in place by the Commission to take forward the processes of negotiation, leading to the accession of up to 13 new member states, ten within the former "Eastern bloc" of Central Europe, and Cyprus, Malta and Turkey. The political and human crisis in Kosovo at the end of the 1990s gave increasing impetus to the process, which resulted in a conflict between the needs for speed and for the achievement of quality in the conduct of negotiations. A balance is now emerging from these pressures whereby enlargement must enable properly negotiated accession to agreed standards, paralleled by the necessary reform of the EU institutions.

The criteria for accession, known as the "Copenhagen criteria" are threefold: political, economic, and the capacity to meet the ongoing obligations of EU membership. The process of negotiation has been opened up to all 13 candidate countries (CCs) from January 2000 onwards. The principle of "differentiation" now applies. This enables each individual CC to achieve accession on fulfilling the Copenhagen criteria, and by meeting the three prerequisites for accession (institutional reform, the conclusion of negotiations, and financial conditions). Overall, the general expectation is that accession will be achieved by a limited number of CCs during 2003-2005, and that negotiations with some will be continuing well into the next decade.

The Welsh response to the issue of, and the opportunities created by, the current enlargement process has not been particularly proactive or positive to date. To some extent, this is understandable given other priorities on the Welsh domestic agenda over the past three to four years. It has been largely left to some highly committed individuals in the public and private sectors to explore the EU external programme opportunities as these have emerged. Despite the increasing opportunities for public sector involvement in the newer programme opportunities associated with institution building in the CCs, Welsh take up has not been good, although there have been recent hints of increased interest.

Since 1998, the main EU funding programmes associated with the CCs have been "accession driven", with pre-accession assistance being inextricably linked to the EU's Pre-Accession Strategy. The three main vehicles for delivering the funding support for the period 2000-2006 are:

- the Phare programme, which is focused on institution building and related investment, approx. EUR 1.5 billion p.a.;
- SAPARD (the agricultural / rural development programme), approx. EUR 0.5 billion p.a.;
- ISPA (assisting with pre-accession structural policies), approx. EUR 1 billion p.a.

The concept of "twinning" between member states and CCs in relation to institution building is embraced within the Phare programme. This has assumed increasing importance over the last 18 months, with the UK being proactive, and with significant opportunities for future Welsh involvement.

The four new EU Community initiatives and the new Community framework and multi-annual programmes are also being made increasingly accessible to the CCs.

The Technical Assistance programmes, the main vehicle for private sector consultant activity, continue but with increasing emphasis on competition between consultant firms, and a seemingly ever growing concentration on higher value contracts through a more limited menu of Framework Contract sectors. For the relatively small Welsh consultancies, this creates even greater difficulties in being able to achieve a "lead" position.

The inevitability of the continuing enlargement of the EU will have to be faced by Wales as a region of Europe, whether proactively or reactively. Wales will undoubtedly become more geographically peripheral as Europe "shifts" eastwards, and competition for mobile inward investment will become increasingly intense. However, the potential benefits to Wales from enlargement are greater.

- Being able to influence the structure of new public institutions in the CCs through EU funded programmes creates the possibility of maintaining an influence on practice and implementation at municipal, regional and national levels in the longer term. Welsh expertise in devolution, economic restructuring and the management of EU funds is already a saleable commodity to Central European countries in this respect.
- Improved interaction at the institutional level, and the extension of the single market to a much larger population creates new opportunities for Welsh businesses. These opportunities need to be nurtured and encouraged, in order to maximise the economic benefits to Wales.
- More proactive engagement with CCs enables unique intelligence to be obtained, particularly in relation to changes in economic performance and practice, which can benefit Welsh companies and provide early warning of economic challenges and opportunities.
- Public sector employees can obtain invaluable experience and professional development opportunities from short term secondments.
- Wales can establish platforms for longer term relationships beneficial to trade, the exchange of expertise, commercial investment and influencing policy decisions at the European level.

This situation now requires a new, more positive and outward looking Welsh response, in order that Wales can enter a new era as a high profile, proactive European region. This response needs to be based on real partnership between the public, private and voluntary sectors, using to maximum effect both the Brussels base at the new WEC, and a dedicated resource or catalyst based in Wales to co-ordinate and take forward a prescribed programme of action. This should include:

- the exploration of targeting Welsh activity in Central Europe, both geographically and by sector;
- maximising the benefits to, and the influence exerted by, the Welsh public, private and voluntary sectors from the activity undertaken;
- establishing the potential for longer term transnational co-operation, taking into account both local and regional opportunities in the respective countries.

Four organisational options are examined as a basis for taking forward this issue:

- Option 1: A joint partnership approach incorporating an integrated action between a dedicated resource / catalyst based in Wales and the WEC, costing up to a maximum of £30,000 p.a.
- Option 2: A private consultant-led arrangement linked to the principle of partnership, incorporating the principles adopted above, at approximately the same cost.
- Option 3: The establishment of a small team within the NAW or WDA at a cost of up to £75,000 p.a., to co-ordinate responses to the new funding opportunities, initially in relation to the Phare "Twinning" programme.
- Option 4: The immediate establishment of a company by a Welsh public sector body at the cost of approx. £300,000 - £500,000 p.a., with payback over time.

Option 1 is recommended as the most cost effective, integrated and widely acceptable model at this stage. It could be operated as a pilot project over a period of up to two years, if necessary. However, given the pace of enlargement process and the competition for associated funding programmes, it is critical that a decision is taken as a matter of urgency.

recommendations (in summary form)

- The report should be accepted as a basis for establishing a joint Welsh strategy in response to the opportunities associated with EU enlargement.
- The principle of partnership should be accepted as a basis for taking forward the Welsh response proposed.
- Option 1 of the organisational structures should be approved.
- Geographical and sector specific targets for this initiative should be identified.

Chapter 1: introduction

The preparation of this report commenced in October 1999. It is based upon work undertaken within the WEC and the then adjoining Wales Commercial Centre (WCC) in Brussels up until January 2000 and on recent Welsh and UK experience in pre-accession funding programmes, particularly on Poland.

Given the period of gestation associated with the preparation of the report, events associated with the current EU enlargement proposals have progressed in parallel through the European institutions, the member states and the candidate countries (CCs). Views on the timing of enlargement, both generally and in relation to individual CCs, change on a fairly regular basis. Therefore, despite the currently expressed frustrations of some CCs as to the perceived increasing delays to the process, accession by the majority of the Central European Countries is still viewed as an issue of "when" and not "if".

Against this background, this report:

- presents a position statement on the processes leading to the proposed enlargement of the European Union over the next five to ten years;
- assesses the Welsh response to date, to the opportunities provided by the various funding programmes associated with enlargement, particularly from a public sector perspective;
- gives an update as to the current situation, in relation to the funding opportunities and complementary actions;
- outlines for consideration the development of a more proactive response to the opportunities, suggesting a new strategy for action;
- makes specific recommendations for urgent decision.

The European Commission's Agenda 2000, published in 1997, set out the policy directions and priorities for the EU for the period 2000 to 2006. It identified enlargement as one of the key issues. As a result, the WEC sought to bring forward enlargement on the agenda of the Welsh public sector. However, at the same time, other major priorities were quite rightly dominating the attention of Wales, in particular the future of the Structural Fund programmes, and the establishment of the National Assembly for Wales (NAW).

Structural Fund status for the majority of Wales has now been secured for the next six to seven years, and the National Assembly has been in existence for 12 months. Therefore, it is perhaps opportune to consider the Welsh position in relation to one of the policy priorities that is likely to dominate the actions of the institutions of the EU over the next decade or so.

Chapter 2: eu enlargement: the process

The current proposal for the enlargement of the EU embraces 13 countries, ten of which lie within Central Europe and were former members of the Communist bloc (Poland, Hungary, the Czech Republic, Estonia, Slovenia, Latvia, Lithuania, Slovakia, Bulgaria and Romania). The remaining three countries are Cyprus, Malta and Turkey. All of these countries have been pressing for some form of membership of the EU over a number of years.

Following the identification of the processes associated with the proposed enlargement of the EU contained within Agenda 2000, accession negotiations were formally opened in March 1998 with the first five countries of Central Europe referred to above, and Cyprus (then known as "the first wave"). A set of procedures was established for accession negotiations which allowed each country to proceed at its own pace, thereby implying that negotiations with all of the "first wave" would not necessarily be concluded on the same date. In April 1998, the Commission launched a multilateral screening of the *acquis communautaire* (the body of EU legislation and regulation to which each of the CCs must achieve

"approximation") with all ten countries of Central Europe and Cyprus. Bilateral screening with each of the "first wave" countries also commenced as part of the accession negotiations.

The distinction between "first" and "second" wave countries has since been removed, for reasons outlined below. From January 2000, all ten of the CCs from Central Europe became part of the same accession negotiation process, and in theory any, or all, could achieve accession to the EU within the same timescale.

A new impetus for accelerating the accession process was given by the political crisis in Kosovo. This experience highlighted the political imperative to achieve a basis for establishing peace and security, democracy and the rule of law, and the foundations for increased prosperity and the alleviation of economic and social disparities throughout Europe as a matter of urgency. However, there was also a view that enlargement must not be undertaken unconditionally and "at all costs". This led to conflicting pressures of speed and quality. In these circumstances, a possible compromise of achieving instant inclusiveness through partial EU membership for the majority of CCs over a short timescale has been discounted. A more balanced approach of offering full membership to CCs through a proper process of negotiation accompanied by a programme of focused EU funding assistance prevails.

Challenges for an enlarged eu

The EU is also addressing two related key issues that must be resolved in parallel with the realisation of enlargement.

Firstly, and most importantly, the need to address the reform of the EU institutions, which was identified at the Cologne European Council as a priority action before any new accession(s) could take place. It is anticipated that reform proposals will result in the reduction in existing member state representation at Commissioner and Commission levels, and within the European Parliament and on the Committee of the Regions. This will undoubtedly have repercussions both for Wales as a region and the UK as a member state.

Secondly, a new enlarged European Union will have to redefine the relationships with its neighbours. This comprises three distinct groupings:

- countries such as Switzerland and Norway, which already meet membership criteria;
- countries such as Albania and those of the former Yugoslavia, which aspire to membership, but are far from meeting the criteria;
- countries to the east and south, with which balanced working relationships will be essential. Russia and the Ukraine are key neighbours in this respect.

the "copenhagen criteria"

The criteria for EU membership, known as the "Copenhagen criteria", which all CCs must fulfil, are

specific and comprise political, economic and other membership criteria.

Political criteria require CCs to achieve "stability of institutions guaranteeing democracy, the rule of law, human rights and the respect for and protection of minorities". All ten of the Central European CCs are currently judged to meet the political criteria. However, the Commission considers that progress needs to be made in the following areas: the strengthening of the judiciary; the control of "widespread" corruption; a more permanent independence of radio and television; and the elimination of deep-rooted prejudice towards and discrimination against minorities, particularly the Roma, in many CCs. The position regarding childcare in Romania continues to be a specific unresolved issue.

Economic criteria require the existence of a functioning market economy, and evidence of the capacity to withstand competitive pressure and market forces within the EU. In undertaking an assessment of each CCs capacity to meet these two criteria, the following economic activities are examined: the rate of growth in GDP; progress in the process of privatisation across all sectors; the volume of foreign direct investment (FDI); progress in the integration of trade with the EU; and the restructuring of certain large industrial sectors, such as steel and coal. Currently, the Commission consider that CCs need to make more, and rapid, progress in the establishment of a regulatory framework for economic activity. In addition, the Commission recognises that the EU needs to take action to improve access for agricultural products from CCs to European markets, and to introduce the application of EU anti-dumping rules to CCs.

In terms of the first of the main economic criteria, the original "first wave" central European countries and Latvia are regarded as functioning market economies, although there are particular concerns at the rate of progress in the Czech Republic. Slovakia and Lithuania are close to meeting this criterion, Bulgaria is beginning to make significant progress, but Romania is failing to progress from a very low base. The capacity of these countries to meet the second of the main economic criterion is more difficult to assess. The "first wave", Latvia and possibly Slovakia, should be able to fully cope with "competitive pressures" in the medium term, although again the Czech Republic gives rise to some concern. Lithuania may achieve medium term success, but for Bulgaria achievement is still likely to be long term despite recent progress and Romania faces severe problems.

Other membership criteria embrace "the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union". The first key activity in this respect is the adoption of the *acquis communautaire*, which the Commission has divided into 31 "chapters" relating to sector specific activities. Adoption involves not only the incorporation of EU legislation and regulation into national legislation, but establishing the administrative and professional capacity to implement and enforce it. Currently legal approximation varies by country, with only Estonia, Lithuania and Romania needing to make more consistent progress. In terms of administrative and judicial capacity, Hungary appears to have made the most progress on a broad front. The remainder of the "first wave" are in advance of the "second wave", although progress in all countries has been inconsistent.

the *acquis*: anticipated problems for the candidate countries

There are eight main areas where general problems are anticipated in the adoption of the acquis. These are:

- internal market legislation (e.g. slow adoption of both public procurement regulations in the utilities sector and alignment of VAT and excise rates, and the need to establish a fully functioning system of state aid control);
- the need to ensure effective financial control, to match the progress made in Hungary and Poland;
- progress in the transposition of environmental legislation and regulation;
- achieving higher standards in nuclear safety;
- accelerating progress in the reform of the audio-visual sector;
- achieving more even and consistent progress in the field of justice and home affairs;
- improving progress in the social and health sectors;
- for all of the CCs, the need to demonstrate significant progress in the area of agricultural structural reform. Insufficient attention is being given to the necessary longer term restructuring, and the quality of veterinary and phytosanitary facilities needs upgrading and substantial investment.

All CCs have aligned themselves with the Common Foreign and Security Policy (CFSP) of the EU, and most border disputes with third countries have been resolved.

Economic and Monetary Union (EMU) is an integral part of the acquis, although a clear distinction is made between participation in EMU, which is compulsory for all member states, and adoption of the euro as a single currency, which is not. Indeed, the Commission is not keen on the CCs pursuing early adoption of the single currency, as this could adversely affect economic stability in many of the countries achieving accession.

In the current circumstances, the EU has now injected new momentum into the enlargement process by including 12 CCs (ten Central European countries, Cyprus and Malta) into the process of negotiation from the beginning of 2000 onwards. Negotiations can proceed with any CC which fulfils the political criteria, but accession can only be achieved on the fulfilment of all of the "Copenhagen criteria" (political, economic and other). The commencement of negotiations with Bulgaria and Romania has been conditional on issues of nuclear safety and childcare provision respectively.

The principle of differentiation remains at the heart of the negotiation process. That is, that the pace of progress will depend on the individual situation of each CC. Thus, the opening (and the provisional closure) of the individual chapters of the acquis for negotiation will be determined by the individual progress made by each CC, and not by general progress achieved with all CCs. The revised procedures have allowed a firmer basis for setting "target dates" for concluding negotiations with, and for accession of, individual CCs. The Commission considers that the first accessions with the most advanced of the CCs is likely to occur after 2002, when the three necessary prerequisites for accession are likely to be achieved: institutional reform, conclusion of negotiations, and financial conditions.

Clearly, an underlying principle to the process is that enlargement of the EU must not equal the weakening of the EU. Undoubtedly, the character and nature of the Union will need to change, but again this should not be interpreted as a weakening. A further key issue in this respect is public perception of, and the level of public support for, the concept and reality of the European Union. The UK has long experience of this issue, particularly in terms of media coverage and public perception. There is genuine concern from within the main institutions of the EU that levels of support must be greatly improved and sustained, not only within existing member states, but also within the CCs. This has led to the Commission launching a publicity and information campaign in May 2000 which will focus on the benefits of enlargement and seek to banish the fears of potential economic and social instability. It is intended that the campaign will be directed towards leading decision makers and opinion formers in all 15 existing member states and the 13 CCs.

Prospects for accession

Overall, the expectation is that accession will be achieved by a number of CCs during 2003–2004. Hungary and Poland appear to lead in terms of progress in negotiations, although there are a number of difficult chapters within the *acquis* which need to be taken forward at a faster pace. It could well be that one or two of the smaller CCs will also achieve this time frame, in that outstanding issues might be easier to resolve, and their impact on entry would not be as great as their larger neighbours. By 2006–2007, there is also an expectancy that all of the original "first wave" CCs will have achieved accession, possibly with the remainder of the Baltic States. In these circumstances, there is a need for Wales, if it is to assert itself as one of the progressive regions of Europe, to establish a positive position in relation to enlargement. This would require maximising the benefits that could accrue, as well as reducing the threats.

Chapter 3: the Welsh response to date

Given the nature of the membership of the WEC, this report concentrates on the implications of EU enlargement in relation to the Welsh public sector. However, there are two issues that have a bearing on the performance of the Welsh public sector in this field.

Firstly, in recent years, the boundaries between the public, private and voluntary sectors has become increasingly blurred, and there is a high level of integration and interdependence between these sectors in carrying forward economic development, social policy issues and environmental activities in Wales. This same situation applies to actions associated with the processes relating to EU enlargement. For example, whilst certain sources of funding may be targeted towards any of the three sectors, there are increasing opportunities, and indeed pressure from the funding agencies, for closer working partnerships. There appears to be particular pressure on the public bodies and private sector consultants to at least co-ordinate their activities, if not work together, on both support and investment projects and advice and training programmes.

Secondly, in defence of the Welsh performance to date, there are a number of interrelated factors that have conspired against a more proactive and positive response to the opportunities available over the last five years or so. In terms of the public sector these include:

- competition from other overriding work priorities, such as securing future EU Structural Fund programme status for Wales, and the establishment of the NAW;
- severe capacity constraints in terms of staff and financial resources, associated with structural reorganisation within, and contraction of, certain parts of the public sector;
- uncertainty both of the financial implications of entering into this field of activity, and of the benefits which might accrue;
- no real leadership or "champion" within Wales to develop a "Welsh position" in relation to EU enlargement.

As a consequence, most activity by the public sector has generally been reliant on the enthusiasm and personal commitment / interest of individual paid officers / employees.

In terms of the private sector, whilst there have been some major commitments by specific consultant firms, there have been limitations on activity, mainly because of the following.

- The relatively small-scale nature of indigenous consultant firms in Wales, thereby restricting the ability of those firms to lead contract submissions, particularly the larger contracts.
- The financial implications associated with EU and other funding programmes relating to Central and Eastern European Countries (CEECs), particularly with regard to payments / cash flow and fee rates. These problems create relatively high risks for small companies.
- A capacity constraint within the Welsh private sector, both in terms of the provision of consultant services or the implementation of infrastructure investment projects.
- Lack of support facilities to engage in the funding opportunities, especially for small companies. Whilst, in recent years, the Wales Commercial Centre performed a role in Brussels for the Welsh private sector, it has been the lack of some form of support facility within Wales which has been the main gap.

In these circumstances, the Welsh response to the opportunities associated with the EU and other donor programmes in the CEECs has been sporadic, modest and largely unco-ordinated over the past decade or so. As indicated above, action has generally depended on the initiative of individuals, or small groups of individuals, within the public sector, private sector consultancies or voluntary sector bodies. These individuals have been highly motivated, and have built up a considerable amount of expertise in specific areas which could provide a basis for more concerted action in the future if a greater commitment could be achieved.

The main sources of funding support for activities in the CCs, and the remaining CEECs, have been mainly these: the EU Phare programme (Central Europe); the EU Tacis programme (Eastern Europe – the New Independent States of the former USSR); and other donor funds, provided directly through the

UK government (British Know-How Fund; and DfID funds) or other major financial institutions, such as the World Bank or the European Investment Bank, etc.

The processes associated with the proposed enlargement of the EU have increased the opportunities for all sectors to become both more involved in, and achieve potentially greater benefits from, the specific EU programmes created to support the CCs. However, this situation does not appear to have significantly improved the Welsh performance in this area of activity during the last two years, despite there being greater scope in:

- Institution building at national, regional and local levels, mainly within the CCs, but also within other CEECs.
- Technical assistance in a variety of sectors and activities associated with the establishment of a free market economy, the public and private infrastructure required to support this transition and the achievement of economic and social cohesion. This needs both public and private sector expertise and investment.
- The opportunities for developing trade links, and exploiting both the expansion of export markets and the creation of joint venture initiatives.

Approaches to the candidate countries

Information regarding past and current involvement in the CCs, and the remaining CEECs, is not comprehensive. A full audit of past and current involvement of the Welsh public, private and voluntary sectors in CCs and the remaining CEECs would be a time-consuming task. At this stage, therefore, a selective approach has been taken. This is based on contact with some of the main institutions in Wales, and also those individuals and organisations who seem to have been particularly active in the past, or have shown a keen interest in the future opportunities, which gives a fairly coherent picture of past and recent performance. The WEC Paper No. 5, *Moving East*, gives some information on past Welsh involvement in EU enlargement programmes. At least four consultant reports have been commissioned by, and prepared for, the WDA over the past three to four years, which also give an insight into both activity in, and perceptions of, CEECs and the proposed enlargement of the EU. Following the initial drafting of this report, a questionnaire survey has been undertaken by the WEC in relation to EU enlargement.

The National Assembly for Wales

Prior to the establishment of the NAW, the previous Welsh Office did not appear to give any particular priority to securing relationships with CEECs, and activities seem to have been confined to trade missions. The NAW have shown greater interest in the possibilities of a more proactive approach, possibly as a result of:

- EU enlargement being moved up the European agenda, following on from the resolution of many of the issues associated with the Commission approval of the new Structural Fund programmes

2000-2006;

- the total lack of Welsh performance through the Welsh Office and the NAW compared with other UK government departments and regional administrations within the UK in relation to the first three rounds of the new Phare "Twinning" programmes;
- the potential of achieving medium to longer term transnational and interregional co-operation with other regions within the EU, the CCs and other CEECs;
- the perceived threats from enlargement, rather than the potential opportunities.

The Welsh Development Agency

The WDA's attitude towards CEECs has been somewhat inconsistent, in that any activity seems to have been very much dependent on the initiative of individual officers at middle management level. There has been no discernible WDA policy set in relation to Central and Eastern Europe, and no "champion" at Board or Senior Executive level. Indeed, the Agency's attitudes at a senior level has been, until recently, extremely negative towards any substantial involvement in enlargement issues, on the basis that proactivity could lead to Wales giving away "the secrets of economic success". However, there appears to have been some softening of attitudes over the past few months, with consideration being given to the inclusion of WDA staff within bids for Phare programme contracts. In addition, the WDA document *A Briefing* (1999) states that within the Agency's Strategic Policy function, "in relation to Europe, it is helping to ensure that opportunities in Central and Eastern Europe with the enlargement of the EU are being optimised".

The eres consultancy report to the welsh development agency

It is understood that the most recent report to the WDA dealing with CEECs and EU enlargement is that prepared by the Cardiff-based economic development consultants, ERES. Although entitled *Opportunities for Welsh SMEs in Central and Eastern Europe* (March 1999), the report quite rightly addresses issues of a broader nature in relation to a "Welsh response". In summary, it confirms the increasing trade opportunities that are being created in CEECs, especially in the CCs. Despite being geographically peripheral, the report suggests that Wales cannot ignore the new circumstances created by the proposed enlargement of the EU. The Welsh companies that have developed trading links (of which there are a relatively limited number) are praised. In addition, the wealth of skills that exists in Wales which are relevant to those countries seeking to establish democratic institutional structures and free market economies presents a major opportunity for the Welsh public and private sectors. The report also examines:

- the changing nature of EU funding programmes in the light of enlargement, and the relevance of Welsh experience to the programme requirements;
- an assessment of Welsh public and private sector expertise;
- the need for both a "branding" and consolidation of Welsh effort to win increasing business and influence;
- the organisational structures adopted by other regions within the EU to gain further influence.

A number of options were examined, in order to establish a "Welsh organisational model" that could enhance performance. The report recommended that a company be established by the WDA, as a wholly-owned subsidiary, to spearhead Welsh private and public sector initiatives in the CEECs. Overall, it was anticipated that the company would require a level of public subsidy for a period of approx. three to four years, after which the prospects of the company entering into profit were high. It was concluded that quick decisions were required to establish such an initiative in Wales, given the speed at which new opportunities were becoming available and the rate of take up by the more progressive and competitive regions in the UK and other EU member states. The apparent lack of response to the report's conclusions would appear to reflect the attitude of the WDA to the issue at that point in time.

Public sector / public-funded involvement with the candidate countries

Other public sector authorities and agencies have had varying involvement in EU programmes associated with the accession countries and the CEECs. On environmental issues the Countryside Council for Wales has developed interregional links. The National Park authorities, particularly the Brecon Beacons NP, have also been involved in "exchange of experience" initiatives with counterpart organisations throughout Europe.

Local authorities have tended to establish conventional twinning arrangements with like authorities within existing member states of the EU. There are a limited number of conventional twinings with local authorities in the CEECs, notably Caerphilly with Pisek (Czech Republic), Cardiff with Lugansk (Ukraine), Neath / Port Talbot with Velenje (Slovenia), Newport with Kurtalsi (Georgia), Pembrokeshire with Uman (Ukraine), and Powys with Krumlov (Czech Republic). It should be noted that this form of twinning has no real relationship with the new twinning projects funded through the Phare programme. The former are relatively low-key agreements between local municipalities, focusing on cultural, educational and social exchanges. They are very valuable in terms of developing understanding across national and political boundaries, but very different from the major funding projects that target institutional, economic and social change.

In addition, local authority departments have used a variety of donor programmes to fund "the provision of best practice" type of projects. For example, Torfaen County Borough Council have used the EU Ecos-Ouverture and the Interreg II programmes to good effect in securing interregional and local partners within existing member states and the CCs. Other local authorities in South East, South West, Mid and North Wales have pursued similar routes with varying degrees of success.

Organisations established in Wales as a result of specific EU programme initiatives have also developed links with CEECs in order to exchange experience and provide models of good practice. The Leader Group, South Pembrokeshire Action for Rural Communities (SPARC), for example, has developed links with Slovakia, Hungary and the Baltic States.

The more general public-funded sector has developed links with CEECs, mainly through the establishment of "commercial arms" associated with the core activity expertise of their parent body.

Examples include the following.

- Welsh Enterprise Agencies have developed contacts throughout Europe, and competed for EU and other funded contracts throughout the world. Cardiff and Vale Enterprise International Ltd, for example, has been extremely active in the CEECs with the assistance of Phare, Tacis, UK Know-How, Overseas Development Association and DfID funds since 1992. They have been involved in over 30 contracts in the Czech Republic, Poland, Hungary, Estonia, Lithuania, the Ukraine, the Russian Federation, Azerbaijan, Belarus, Mongolia, Georgia, Kazakstan, and Moldova. The focus of the programme activity has been enterprise and SME development, the core expertise of the parent organisation.
- University departments in Wales have developed in a similar manner. For example, at Bangor University, the Centre for Arid Zone Studies and Inifinet (School of Accountancy, Economics and Training) have both been active in the CEECs.
- The UK's Agricultural Development and Advisory Service (ADAS) has utilised the Phare programme and DfID throughout the CEECs, providing advice and training.

Private sector involvement with the candidate countries

A small, but very proactive Welsh private sector has developed links and expertise in the CEECs, as a result of commercial participation in EU and other donor-funded programmes. Because of the commercial nature of the work, there is no specific focus on CEECs. Many of the consultants (mainly small businesses or sole traders) operate on a worldwide brief in terms of the sale of their expertise and services. However, with an increasing focus of EU pre-accession funding targeted towards the CCs, more contract opportunities are becoming available in this area. Examples of such consultant firms, which tend to operate in specialist fields, are ERES (economic development), PB Kennedy and Donkin (engineering and environment), Richards Moorehead and Laing (engineering, land reclamation and environmental improvement), and the Wales Office of the Crown Agents (enterprise development). Larger companies do have consultancy arms, which bid for technical assistance and infrastructure investment projects. The most high profile in Wales is Hyder. Whilst the existing company has recently been the subject of a take-over, the consultancy arm is likely to continue to operate. A significant amount of work has been undertaken in CEECs, both in terms of technical assistance (specialist advice on a wide range of subjects), and on the implementation of major capital infrastructure projects (utilities and transport, etc).

There is evidence of increasing interest in securing trading links by individual Welsh companies in the CEECs. Two examples are:

- Newbridge Networks, Newport, who have broken into the expanding central European market for telecommunications and other product sales;
- Mono Equipment, Swansea, who have supplied specialist bakery equipment to a number of the CEECs. Russia was a critical market at a time when the company was diversifying from a

conventional retail bakery outlet to a manufacturer and supplier of high quality and reliable bakery machinery.

There are many more companies which have succeeded in penetrating markets in the CEECs. However, enlargement of the EU will vastly increase the opportunities for Welsh business.

Conclusions: the response to date

Whilst recognising the genuine constraints within which the Welsh public and private sectors have had to operate, clearly the level of performance in relation to the opportunities created in the pre-accession period leading to EU enlargement has been disappointing, especially so when compared with the performance of public, quasi public and private sector bodies in the UK and in other regions of the EU. Given the new impetus being given to the enlargement process and the inevitability of its realisation, Wales probably has a final chance to reassess its position in relation to the larger EU which will emerge.

Chapter 4: the current situation

The EU funding programmes which support the process of enlargement have been reoriented over the last two to three years. Previously, the key funding programme for the countries of central Europe, Phare, was very much demand driven from the recipient countries. Following the publication of Agenda 2000, the Phare programme became totally accession driven.

Pre-accession assistance, which complements the EU's Pre-Accession Strategy and associated procedures referred to earlier in this report, is delivered through three distinct programme budgets, comprising:

- The Phare programme.

The overall objective of the Phare programme 2000-2006 is to help CCs to prepare to join the EU. To achieve this, Phare support will be directed towards the priority areas of action identified in the Accession Partnerships established for each CC. The Accession Partnership Framework covers the whole of the pre-accession period, thereby providing the framework for the multi-annual programming of assistance to each of the CCs.

An annual budget of EUR 1.5 billion (at 1997 prices) has been approved for the period 2000-2006.

The two main priorities of Phare during this period will be "institution building" and

"investment". The institution building element of the programme will receive approximately 30% of the total Phare budget, although this may vary by CC. It will help the CCs to implement the *acquis communautaire* and fulfil the requirements of the Copenhagen political criterion for accession. The main basis for implementing the institution building element is through the process of twinning, whereby intensified interaction between officials and practitioners from member states and the CCs has been, and will continue to be, established. The priorities for action during 1998 and 1999 have been within the sectors of agriculture, environment, finance, and justice and home affairs; this is now in the process of being extended to other sectors. The investment element of the programme will receive approx. 70% of the total budget, and is directed towards two areas of activity: firstly, towards investment to strengthen the regulatory infrastructure needed to ensure compliance with EU norms and standards (the *acquis*); and secondly, towards investment in economic and social cohesion, including the effects of restructuring in important sectors of the economy.

- The Special Accession Programme for Agriculture and Rural Development (SAPARD).

The overall objective of SAPARD 2000-2006 is to assist CCs to deal with the problems of structural adjustment in the agricultural sectors and in rural area development. In addition, it assists in the implementation of the *acquis* in relation to the Common Agricultural Policy (CAP) and related EU legislation.

An annual budget of EUR 520 million (at 1999 prices) has been approved for the programme period.

- The Instrument for Structural Policies for Pre-Accession (ISPA).

The overall objective of ISPA 2000-2006 is to assist CCs in the alignment of major transport and environmental infrastructure with Community standards. In this context, ISPA is analogous to the Cohesion Fund, which is available to certain existing member states.

An annual budget of EUR 1,040 million (at 1999 prices) has been approved for the programme period, to be divided evenly between the transport and environmental sectors.

The main priorities of the programme actions are the familiarisation of EU policies and procedures in the fields of transport and the environment, expanding and linking with the trans-European transport network, and helping CCs to achieve EU environmental standards.

The four new EU Community initiatives 2000-2006 (Interreg III, Leader+, Urban and Equal) will be opened up to CCs through the process of dissemination of best practice and exchange of experience.

Other existing EU Community programmes have been made accessible to CCs as part of the increasing emphasis of transnational and interregional co-operation. Appendix A gives an outline of the current position in this respect. The new Community framework and multi-annual programmes (e.g. 5th Framework – RandTD, Culture 2000, Regional Innovation and Technology Transfer Strategies (RITTS), etc) are being made accessible to the CCs.

In terms of specific opportunities for private sector consultants, well-established procedures for contracts have been in place for a number of years, in relation to the Phare, Tacis and other EU external programmes. Since 1996, smaller contracts within the Phare programme have been administered through Framework Contracts (FWCs) for 13 sector specific activities (e.g. agriculture, environment, information technology, SME and regional development, etc). There are currently proposals to amalgamate the 13 sectors to a lesser number, and appoint up to three Framework Contractors for each new sector of activity. In addition, the FWCs may be extended to cover most or all EU external programmes. This would result in FWCs becoming larger and even more competitive, probably resulting in only the larger of the multinational consultants being able to compete at this level.

uk participation in eu pre-accession programmes

At member state level, the UK's response to the pre-accession programmes associated with the enlargement process has largely been dealt with through the Twinning Unit within the Foreign and Commonwealth Office. By the end of 1999, there had been two "rounds" of twinning projects in 1998 and one "round" in 1999. The UK performance in round 1 (1998) was fairly modest, compared with other member states of comparable size. Germany was successful in securing involvement in 53 projects, France 33 and the UK 12. Indeed, it was recognised that the UK was probably slow in building up a positive response to the emerging opportunities. The second round in 1998 proved to be more successful for the UK, with 16 approvals, compared with 14 for France and 11 for Germany. During 1999, the UK had picked up a further three approvals, with over 30 applications in the 1999 round awaiting consideration. By the end of 1999, therefore the UK had a total of 31 approved twinning projects, with 21 Pre-Accession Advisers on secondment to CC Ministries or preparing twinning covenants. The UK was represented in eight of the CCs.

As might be expected, the UK representation within the twinning projects was overwhelmingly resourced from the main central government departments (e.g. DTI, MAFF, Home Office, Treasury, DETR, etc). However, during 1998/99, both the Scottish Executive Development Department and the Department of Economic Development (NICO) of Northern Ireland submitted twinning proposals, were short listed, and received approval for twinning projects. Currently, the NAW (and previously, the Welsh Office) has yet to submit an application for a twinning project. As referred to elsewhere in this report, there have been valid reasons for this level of performance, but the situation requires fairly urgent review.

In relation to twinning projects, there has been a significant shift in the regulations regarding the eligibility of potential twinning partners from February 2000. Previously, there were strict definitions as

to project team participants from each member state, and the UK has generally followed the line of proposing civil servants as leaders and members of the twinning teams. There is some evidence that other member states were less than rigorous in the composition of their twinning teams. The latest "Twinning Manual" published by the Commission (15 February 2000) indicates a more flexible policy towards team composition, with all levels of competent public administration (national, regional and local) being eligible, and non-administrative bodies being acceptable for consideration, subject to the fulfilment of certain criteria. This clearly widens the scope of opportunity for Wales.

Opportunities beyond EU programmes

Opportunities for co-operation between Wales and the CCs exist outside the formal programmes outlined above. Those individuals from the public, private and voluntary sectors in Wales who have firsthand experience in working in the CCs of Central Europe, through EU-funded initiatives or otherwise, inevitably subscribe to the view that the demand for the benefits of the "Welsh experience" is widespread throughout these countries. Numerous requests for co-operative working are unanswered because the institutions in Wales have not been properly organised to give a co-ordinated response. Any new Welsh initiative in relation to the more formal opportunities needs to embrace the possibilities of devising new forms of interregional and transnational co-operation, which can be of mutual benefit of both parties.

Chapter 5: a new Welsh response and a strategy for action

The enlargement of the European Union has been an ongoing process since the establishment of the European Community by the original six nations following the Treaty of Rome in 1957. Accession has been achieved by a further nine countries over the intervening period, with Austria, Finland and Sweden becoming the newest members in 1995. Clearly, the current proposals for up to 13 new members (the ten from central Europe, with Cyprus, Malta and Turkey), albeit over a decade or more, will have significant effects on existing relations and structures. The situation is one of "when" and not "if". It will create major challenges not just for member states, but also for their constituent regions, and the issue of regional identity within the context of the EU institutions will be a continuing theme for years to come.

Opportunities and threats

Wales will have to come to terms with these challenges, both in the context of potential threats and potential benefits. The main threats are likely to be:

- Increasing geographical peripherality. This is inevitable in that enlargement of the EU can only substantially occur in an eastwards direction. However, this does not necessarily result in Welsh

influence being diminished. Wales' position in this respect is more dependent on the level of proactivity in European affairs, and the willingness to engage in transnational and interregional co-operation.

- Increasing competition for foreign direct investment (FDI). This issue could be overrated. The accession of countries with lower cost thresholds and lower wage structures may well appeal to mobile FDI. However, there are other factors that can influence investors, such as political, economic and social stability, as well as the quality, reliability and the skill levels of the potential workforce. There is also the issue of the quality of the inward investment, both in terms of jobs created, and of long term commitment. In relation to the former, if Wales is genuinely seeking to meet the requirements of Objective 1 funding, it will endeavour to establish sustainable, high skill, high wage jobs, and perhaps not the lower value, assembly line type of jobs which are sometimes created by FDI. Finally, recent relocations from Wales suggest that competition for investment from within the existing EU is, and could continue to be, just as great a challenge as that from the CCs.

The potential advantages and benefits to Wales are much more diverse, subject to the Welsh response to the opportunities being positive and proactive. Engaging with the CCs of Central Europe has three key benefits.

Firstly, being able to influence the structure of new public administrations and institutions and the establishment of new market economies in the CCs through EU-funded programmes creates the possibility for developing longer term relationships, and maintaining influence, at municipal, regional and national levels. In this context, the Welsh experience of political devolution, of the restructuring of traditional heavy industries (coal, steel, etc) and agriculture / the rural economy, and of securing, managing and implementing a wide range of EU funding programmes and initiatives is of great interest to nearly all of the CCs. This expertise is a saleable product for the Welsh public, private and voluntary sectors.

Secondly, both improved interaction at the institutional level and the extension of the single market to a much larger population through EU enlargement will create new opportunities for Welsh businesses, particularly for the products and services of Welsh SMEs. It is essential that Welsh companies are made fully aware of the potential opportunities and that the potential is fully exploited in order to maximise the economic returns to indigenous Welsh companies. This focus could provide a further vehicle for the internationalisation of Welsh SMEs in the global marketplace, and provide a broader role for the "enterprise agency" sector in Wales.

Thirdly, by engaging more fully with CCs, both through trade and interactive institutional and public administration-level relationships, the intelligence gained in respect of political, economic and social changes within those countries would be of great benefit to Wales. In this context, being more aware of the nature of economic activity within the CCs provides an important source of intelligence on the nature of economic change, and the challenges and opportunities that these may create for Wales over the longer term. In addition, closer co-operation with CCs and their regions would enable Wales to be better able to influence EU institutions on a range of policy issues.

Other benefits to Wales from a more proactive involvement are:

- For the Welsh public sector, there are increasing opportunities for staff to obtain broader, international experience through paid secondments or placements of varying duration. Such experience would benefit the professional and personal development of those officers involved, leading to greater staff motivation. Even with the problem of severe capacity constraints on the Welsh public sector, particularly within local government, the range of professional advice and technical expertise required in many of the CCs is very wide, covering all existing areas of public sector activity in Wales.
- CCs are generally turning to English as the language for business, trade and international relations. Those countries and regions that are predominantly English speaking have an advantage over other member states.
- The establishment of closer relationships at institutional and trade levels would in itself also provide a platform for exploring commercial and investment opportunities for Welsh and foreign investors.

Three areas for action

In the circumstances outlined above, it is concluded that Wales cannot remain largely reactive to the implications of EU enlargement. It must take a more proactive approach whereby the threats are minimised and the benefits maximised. There are three main areas of activity where strategic action needs to be taken if Welsh interests are to be taken forward in a positive and proactive manner. And, given the scale of the competition, action needs to be taken as a matter of urgency.

One: establishing the nature of the Welsh response

Firstly, there is a need to establish the nature of the Welsh response to the opportunities associated with the EU enlargement process. Given the scope of the current and anticipated opportunities, and the limitations on the capacity of the Welsh public, private and voluntary sectors to either lead, or individually and exclusively engage, any actions taken must be practical, realistic and based on the principle of partnership.

In this context, the WEC, through its members, their serviced clients, and from its wide range of contacts based in Brussels, has a major role to perform. It should ensure that the issue is brought forward on the Welsh domestic agenda.

Within Wales, there is a need to establish a "champion" to take forward the issue of real partnership as a new response to the emerging opportunities. This role should be one of acting as a catalyst within Wales, in order to establish appropriate structures, rather than one which should necessarily lead and control.

Specifically in relation to a Welsh contribution towards existing and future twinning projects between

member states and CCs, the NAW should take a more proactive stance. Subject to the availability of expertise, the Assembly could either put forward proposals for twinning projects through the Foreign and Commonwealth Office (FCO), representing the UK's member state interests, or provide support to other Central Government department / devolved government proposals from within the UK.

The increasing flexibility being given to the composition of the expertise that can be brought together in bidding for twinning projects has been referred to previously. Therefore, a partnership approach adopted within Wales should enable those with local authority, recent public sector experience and/or private / voluntary sector experience to be incorporated into the "Welsh team", if this provides the appropriate level and scale of expertise and experience in relation to the twinning project concerned.

Given the increasing scale and value of consultant contracts now being made available through EU external programmes, it is unlikely that any existing individual Welsh consultant firms have the capacity to lead contract submissions or achieve the status of Framework Contractors. Opportunities are therefore likely to be restricted to sub-contract activities. However, given the nature of the expertise known to exist within the Welsh consultancy sector, either specific consultant firms or individuals, could make a valuable and practical contribution towards a joint public / private sector "Team Wales" approach to twinning projects. This arrangement would not restrict Welsh consultants to operating on a commercial basis outside the field of interests established for a Welsh partnership.

Equally, a more flexible response should be shown by public sector bodies to the incorporation of public sector officials into bids led by Welsh consultant firms. Clearly, incorporation should be conditional, but there is no reason why agreement could not be reached in order to promote actions of mutual interest within the partnership context. Recent experience from the WDA could assist in this respect.

two: geographical targeting

Secondly, there is a need to maximise the benefits of Welsh activity through geographical targeting. In this context, the establishment and maintenance of medium / longer term interregional and transnational co-operation between Wales and CCs both at national and/or regional level requires examination, and the following factors should be taken into account.

Existing public sector links are fairly limited, and appear to be at a localised level. However, these links should be examined in order to establish whether they provide any basis for expanding into wider and more permanent links at a regional or national level.

Interregional / transnational co-operation could be based on securing relationships with those CC regions and/or smaller nations

- which have potential for growth (i.e. the potential "new" motor regions of an enlarged EU);
- which have economic (social and/or environmental) structures / characteristics similar or relevant to Wales; or

- which display a positive and proactive attitude towards co-operation (i.e. are prepared to give a commitment to co-operation, rather than pay "lip service" to such an arrangement).

As a lead to targeting, geographical priorities could be set for potential Welsh involvement in twinning project activity.

- The WEC Paper No. 5, *Moving East*, suggests certain criteria that could be used to identify potential regional partners within the CCs of Central Europe. In this context, the experience of the German Land (Region) of Saxony-Anhalt is useful, in that the capacity, willingness and capability of potential regional partners to co-operate on a mutually beneficial basis can be more important than particular regions' similarities or interests.
- The FCO have already indicated that any of the Baltic States could be appropriate partners for Wales in relation to twinning projects. There are a number of comparable characteristics which could assist joint working, as well as the willingness of Sweden and Denmark to work with UK partners on Baltic State initiatives.
- In addition, the progress with the establishment of Regional Authorities in Poland could provide opportunities in relation to "institution building", twinning and other EU funding projects in that country. Contacts have been made by a number of public sector bodies and private sector consultants in this respect that could benefit from a more concerted and co-ordinated effort.

Finally, this activity should be assessed within the context of broader interregional relationships between Wales and other existing member state regions. In relation to the CCs, there is a need to examine the possibilities of establishing such relationships with national governments in the smaller CCs. For example, Estonia, Latvia and Slovenia all have lower populations than Wales, Lithuania has a slightly higher one, and Slovakia one less than twice Wales' size – see Appendix A. Within the larger CCs, Poland, with a total population of over 38 million, is in the process of establishing Regional Authorities (Voivodships) having populations varying from just over one to more than five million – see Appendix B. More importantly, an assessment must be made of the wider opportunities generated through longer term interregional co-operation. For example, there are regions in Poland which have characteristics closely associated with past economic experience in Wales, and others which could be identified as having potential for more dynamic economic change in the future (potential motor regions).

Three: prioritising sectors of activity

Thirdly, it would be useful if some consideration could be given to which sectors of activity should be given priority in terms of project and contract work within the CCs. In this context, a substantial amount of contract work undertaken by Welsh consultants in recent years appears to have concentrated on SME development / business support, the establishment of market economy practices in the field of economic development, and the implementation of environmental infrastructure work. At the same time, there has been a shift within the main funding programmes towards institution building and investment complementing the adoption of the *acquis*, especially in the fields of transportation and the environment. Reference has been made previously in this report to those aspects of Welsh experience, in the areas of

devolution, economic restructuring and the implementation of a wide range of EU funding programmes, that appeal to public and private sector interests in the CCs.

Organisational structure: options

In conclusion, the organisational structure(s) for taking forward the Welsh response on a partnership basis need(s) to be considered and resolved as a matter of urgency. Whatever model is adopted, the positive and proactive involvement of public, private and voluntary sector interests must be harnessed if the benefits to Wales are to be maximised. At this stage, the main organisational options are identified as:

- Option 1: The establishment of a dedicated catalyst within Wales to bring together various strands of the public, private and voluntary sectors that have an expressed interest and/or have a track record in CEECs. In this context, the formation of an informal "Wales European Enlargement Network" (WEEN) would be highly desirable to provide an immediate sounding board, and an interim consultative base, for the catalyst. The focus of activity would be that of an inclusive, partnership approach to both the funding programme and the transnational / interregional co-operation opportunities which could exist between Wales and the national governments / regional institutions in the CCs. This would need to be complemented by the reallocation of staffing resources within the WEC to provide complementary service activity from Brussels. This arrangement could be operated as a pilot project for a period of one to two years, at an additional on cost of up to £30,000 per annum.
- Option 2: Similar functions to Option 1 above, but undertaken by an existing Welsh consultancy organisation working in conjunction with a public / private sector partnership. This is unlikely to be cheaper than Option 1. It could have the advantage of being able to access a broad range of experience in relation to existing EU programmes in CEECs. However, it could have the disadvantage of dividing private sector consultancy interests from the outset.
- Option 3: The establishment of a small team or unit (two to three employees) within one of the major public bodies in Wales (e.g. the NAW or the WDA) to act as a co-ordinating body for taking forward public, private and voluntary sector initiatives in relation to CCs. This would almost inevitably have an initial focus on public sector opportunities, but over a period of time could embrace opportunities for the other sectors. A cost of up to £75,000 per annum is likely.
- Option 4: The formal establishment of a company, sponsored and underwritten for a specified period, by a major player in the Welsh public sector, such as the WDA. This company would spearhead and service joint public and private sector initiatives. The overall cost of establishing and underwriting such a venture would appear to be approximately £300,000 to £500,000, with payback if successful over the medium term (three to five years). The focus would be on winning contracts and servicing the Welsh SME sector involved in this area of activity (mainly Welsh consultants), but it could also develop opportunities associated with the twinning programmes, with the co-operation of the NAW.

Each option has advantages and disadvantages. In terms of prudence and cost effectiveness, 1 and 2 would appear the most appropriate, Option 1 would have the added advantage of being able to bring

together a partnership in a more objective manner, and with the benefit of closer relationships and more integrated action with WEC. Given that Option 1 could be part of a process which might lead to structures similar to those outlined in Options 3 and 4 over a period of up to two years, it would appear to be the most appropriate form of positive action at this stage. Overall, there are three necessary prerequisites to the organisational structure adopted.

The first is that the structure established is dedicated to the specific task, and that this task is not just an "add on" responsibility to an existing job or function.

Secondly, there should be an unequivocal commitment from the NAW, a directly responsible body such as the WDA, or the WLGA to "champion" and initially lead this high profile and critical initiative, with the support the wider public / private / voluntary sector partnership.

Thirdly, financial provision from public sources would have to be made to cover the costs of the initiative. It is essential that a commitment is made for some level of expenditure in the current financial year (2000-2001), with a more significant ongoing commitment into 2001-2002.

Chapter 6: recommendations

The following recommendations are made:

- that this report be accepted as a basis for establishing a joint strategy for Wales in response to the opportunities associated with the proposed enlargement of the European Union;
- that the principle of partnership be accepted as the basis for taking forward a Welsh response to the opportunities identified in this report, with a specific lead being taken by the National Assembly, one of its directly accountable bodies, such as the WDA, or the Welsh Local Government Association;
- that Option 1 of the organisational structures for taking forward a Welsh response be approved, with the structure being specifically dedicated to the tasks required. Details of possible arrangements for this proposal are outlined in Appendix C. In this context there is a need to identify a funding commitment from a major public sector source for the financing of the proposed initiative;
- that action be taken in conjunction with the WEC's membership to commence identification of any geographical and sector specific targets for the proposed Welsh initiative.

Country	Population in millions (1995/96)*	GDP per capita (% of EU av. 1997/98)+	Unemployment rate (1996/97)*
Poland	38.609	39	12.4
Romania	22.608	27	8.0
Czech Republic	10.321	60	3.4
Hungary	10.212	49	9.2
Bulgaria	8.340	24	13.7
Slovakia	5.368	46	10.9
Lithuania	3.707	31	6.2
Latvia	2.479	27	18.3
Slovenia	1.990	68	7.3
Estonia	1.476	36	7.6

Source of information:

* *EC Guide: EU Assistance for Regional Development.*

+ Presentation by Paul Green (Cabinet Office) to Wales Forum on European Affairs, 12 May 2000.

Appendix B: Poland – regional authorities

Voivodship (Regional authority)	Population in millions (%)		Share of GDP (%)	Unemployment rate (%)
Dolnoslaskie	2.985	(7.6)	7.3	12.3
Kujawsko- Pomorskie	2.098	(5.4)	4.6	13.6
Lubelskie	2.242	(5.7)	4.2	9.6
Lubuskie	1.020	(2.6)	2.3	12.4
Lodzkie	2.673	(6.8)	6.5	11.0
Malopolskie	3.207	(8.2)	7.4	7.1
Mazowieckie	5.065	(13.0)	19.7	7.3
Opolskie	1.091	(2.8)	2.4	9.8
Podkarpackie	2.117	(5.4)	4.1	11.7
Podlaskie	1.224	(3.1)	2.3	9.5
Pomorskie	2.179	(5.6)	5.6	10.4
Slaskie	4.894	(12.5)	14.6	6.2
Swietokrzyskie	1.328	(3.4)	2.4	11.9
Warminsko- Mazurskie	1.460	(3.7)	2.9	18.9
Wielkopolskie	3.346	(8.6)	9.3	7.8
Zachodniopomorskie	1.730	(4.4)	4.3	13.1

Totals	38.686	100.0	12.1 (av. 1996/7)
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Source of information:

All information taken from *A New Poland for New Challenges* published by the Chancellery of the Prime Minister of the Republic of Poland (December 1998). The average unemployment figure shown is taken from the presentation given by Paul Green (Cabinet Office) to the Wales Forum on European Affairs, 12 May 2000.

appendix c: a proposed organisational structure (option 1) for a new welsh response

It would be desirable for such an initiative to have the support of the National Assembly, the WDA, and the WLGA, in terms of lead public sector interests within Wales. Each body would no doubt have particular objectives in pledging support. In addition, private sector interests are likely to seek particular benefits from the suggested partnership approach. Informal consultations with representatives from that sector indicate that assistance with cash flow, pre-project / contract marketing and the establishment of a high profile Welsh branding image for any new initiative would be a high priority.

The proposed organisational structure under Option 1 would benefit from a more focused service from the newly constituted and recently reorganised WEC. The restructuring of staff responsibilities suggests that WEC is capable of performing the required functional and service activities based in Brussels, and is capable of establishing a strong liaison role with a dedicated catalyst within Wales to bring together Welsh interests, and jointly identify geographical and sector specific targets.

The "catalyst" in Wales could either be a part-time or full-time appointment with one of the main public sector members of the WEC, either within the staffing structure of that body, or employed on a consultancy contract. If necessary, it could be that the appointment based in Wales could be through the WEC. This would certainly give the wider membership of the WEC, and their serviced clients, greater shared "ownership" of the proposed partnership initiative. Clearly, a number of variations exist which would require fairly urgent consideration.

In very general terms, the cost of establishing a dedicated catalyst would be up to £30,000 per annum, depending on the specific nature of the appointment. The costs could be broken down as:

- total salary cost / time-based fee: approx. £24,000 full-time, at a lower level of experience / expertise, or £18,000 part-time, at 2.5 days per week equivalent, at a higher level of experience / expertise;

- office /administration costs: these could be kept to a minimum (£2,500) if a member of the "partnership" / network (public or private) were willing to provide accommodation, or a higher figure (£7,500) with accommodation costs;
- travel and subsistence approx. £2,500–£3,500.

Overall, the best option would be a part-time expert at £18,000, with minimum office costs (£2,500-£3,000), and a reasonable level of travel and subsistence (£2,500-£3,000), making a maximum total of £24,000.

Wales is already in a relatively poor position, compared with other regions in the EU, in respect of proactive responses to the opportunities associated with the enlargement process. Therefore decisions on how to take forward any new Welsh response need to be taken as a matter of urgency, with a view to launching and establishing a new initiative before the end of 2000.