

# EUROPEAN PARLIAMENT



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**Briefing No 27**

## **AGRICULTURE AND ENLARGEMENT**

\* *The views expressed in this document are not necessarily those held by the European Parliament as an Institution.*

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<u>Number</u>	<u>Title</u>	<u>PE No</u>	<u>Date</u>	<u>Languages</u>
1	Cyprus and membership of the European Union	167.284/rev. 2	30 June 1998	All
2	Hungary and the enlargement of the European Union	167.296/rev.1	11 February 1998	All
3	Romania and its accession to the European Union	167.297/rev.1	12 February 1998	EN-FR
4	The Czech Republic and the enlargement of the European Union	167.335	11 March 1998	All
5	Malta and the relations with the European Union	167.350	9 March 1998	All
6	Bulgaria and the enlargement of the European Union	167.392	18 March 1998	All
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8	Estonia and the enlargement of the European Union	167.409	3 April 1998	All
9	Slovenia and accession to the European Union	167.531	20 April 1998	All
10	Latvia and enlargement of the European Union	167.532	22 April 1998	All
11	Lithuania and enlargement of the European Union	167.533/rev.1	29 April 1998	All
12	Poland and accession to the European Union	167.587	11 May 1998	All
13	Slovakia and accession to the European Union	167.609	12 May 1998	All
14	Russia and enlargement of the European Union	167.734	9 June 1998	All
15	The institutional aspects of enlargement of the European Union	167.299	13 February 1998	EN-FR
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21	Enlargement and Economic and Social Cohesion	167.584	8 May 1998	DE-EN-ES-FR
22	Statistical Annex on Enlargement	167.614	15 May 1998	EN
23	Legal Questions of Enlargement	167.617	19 May 1998	DE-EN-ES-FR
24	Pre-accession strategy for enlargement of the European Union	167.631	17 June 1998	DE-EN-ES-FR
25	Cooperation in the area of justice and home affairs in the enlargement process	167.690	17 June 1998	DE-EN-ES-FR
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27	Agriculture and enlargement of the EU	167.741	3 September 1998	DE-EN-ES-FR

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**BRIEFING  
ON  
AGRICULTURE AND ENLARGEMENT**

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## SUMMARY

One of the major challenges of future accessions to the EU is represented by the agricultural aspects of enlargement to the countries of Central and Eastern Europe. The importance of the agriculture sector in the applicant countries is such that considerable changes will have to be made to the CAP. In July 1997 the Commission outlined its reform proposals in Agenda 2000: the underlying theme is reducing support prices to bring them closer to prices on world markets in order to reduce expenditure on export refunds and comply with international agreements. In compensation, farmers would receive direct income support. This approach was confirmed by the legislative proposals of March 1998 which laid the foundations for future reforms.

Meanwhile, following the proposals made in Agenda 2000, the strategy of convergence between the EU and the CEECs has been stepped up. The main plank of this strategy is now accession partnerships, which include all the available forms of assistance, and increased pre-accession aid; the Commission outlined the arrangements on 18 March 1998.

Among the available pre-accession instruments, there is an instrument for agriculture which aims to resolve the most pressing problems of adapting the applicant countries' agriculture sector and contributing to implementing the Community acquis with regard to the CAP. The EAGGF (Guarantee Section) has ECU 500 million annually at its disposal and the operation covers the period 2000-2006. When they join the EU, the countries concerned will lose the rights granted by aid. Although the objective and arrangements for assistance have been welcomed by all the CEECs, the amount of funding devoted to it has caused some puzzlement.

This document is concerned with the agricultural aspects of enlargement of the EU to the countries of Central and Eastern Europe and in particular with the pre-accession measures for agriculture in the CEECs. After briefly outlining the current agricultural context of enlargement, it considers the pre-accession strategy put in place by the EU to receive the applicant countries in due course. The second part briefly describes the chronology of preparation for enlargement and considers the 'Agenda 2000' communication of July 1997 and the legislative proposals of March 1998, with regard to both agriculture and the pre-accession instruments. The third and last part focuses exclusively on the instrument for agricultural pre-accession aid and on the opinions of the various entities affected by this particular aid.

Further information on the overall pre-accession strategy is given in Briefing No 24 by the Enlargement Task Force.

### **1. THE PRE-ACCESSION AGRICULTURAL CONTEXT**

The agriculture and rural development sector is considered a particularly sensitive area in the context of enlargement because of the size of the agriculture sector and the production potential of the CEECs. It is generally admitted that these particular characteristics will have a considerable effect on the current form of the CAP.

Indeed, although the GDP of the 10 CEECs is equivalent to 3% of that of the EU, the area devoted to agriculture in the applicant countries represents almost 44% of the area of the Community. Their agriculture does not produce so much, as their productivity is weaker, but it is nonetheless equivalent to 30% of EU production. Consequently, the contribution of the CEECs will be 10 times higher for agriculture than in terms of GDP, which is likely to affect agricultural markets and policies. Moreover, in the wake of a transition and restructuring period, agricultural production in the CEECs has dropped

by 25-30%, but this trend should be balanced out before accession due to the adoption of Western production techniques and once the market economy has taken off. Farm prices in the applicant countries are to be close to Community prices on membership and thus in time will encourage CEEC producers to increase their production. The agricultural potential of the applicant countries will thus be even greater.

Consequently, incorporating the CEECs' agriculture into the present-day CAP will cause serious tensions. Firstly, the income support system could be extended to farmers in the new Member States and excess produce would have to be sold on external markets, requiring new export refunds. The resulting budgetary problems could vary from ECU 5 to 50 billion. Secondly, the EU and the CEECs have committed themselves in the GATT/WTO not to exceed certain ceilings with regard to export subsidies, which could be a problem in the event of enlargement.

In order to reduce these tensions, various scenarios have been proposed, such as excluding agriculture from the internal market of an enlarged EU, imposing longer transition periods, or immediate and complete incorporation of CEEC agriculture in the CAP by imposing quotas and set-aside systems. Some see a solution in stepping up the MacSharry reforms, through reducing support prices to bring them into line with world market prices in order to reduce expenditure on export refunds and comply with international agreements. In compensation, farmers would receive direct income support. The reform proposals presented by the Commission follow this last route and are described below.

## **2. PREPARATION FOR MEMBERSHIP**

After this definition of the agricultural context of enlargement to the CEECs, this second part is devoted to the pre-accession strategy worked out by the EU. Briefly it developed chronologically as follows:

- The Copenhagen European Council (June 1993) agreed that associated countries which wished to do so could join the EU and laid down the political and economic conditions which future Member States would have to fulfil before membership.
- The Essen European Council (December 1994) laid down an overall strategy of convergence with the CEECs based on European Agreements (concluded from 1991 to 1995 with the 10 CEECs), structured dialogue and the PHARE programme.
- The Madrid European Council (December 1995) confirmed the need for enlargement to be well prepared, within the framework of the strategy laid down in Essen. It considered that this strategy should be intensified to create favourable conditions for the gradual and harmonious integration of the CEECs.
- The Dublin European Council (December 1996) hoped that the strategy would be strengthened.

### **2.1. Agenda 2000 - July 1997**

In July 1997 the **Commission** published 'Agenda 2000', a communication which provides a detailed analysis of the political and economic situation in the ten applicants, and advocates beginning negotiations in January 1998 with Cyprus, Poland, Hungary, the Czech Republic, Slovenia and Estonia.

The Commission also proposed reinforcing the pre-accession strategy<sup>1</sup> and reform of common policies such as the CAP.

At the end of 1997, **Parliament's Committee on Agriculture and Rural Development** in its opinion on Agenda 2000 for the Committee on Foreign Affairs considered that the Commission had exceeded its mandate and turned a technical analysis into an actual political programme, with absolutely no consultation. It also pointed out that in Agenda 2000 there was no causal link between the proposals for reform of the CAP outlined by the Commission and the prospect of enlargement. It also regretted that the Commission was underestimating the difficulties faced by the new members. It criticised the Commission for using out-of-date statistics on agriculture, insufficient differentiation between the applicants and its hypothesis that the gap between Community prices and those in the CEECs would continue to narrow.

On 4 December 1997 **Parliament**<sup>2</sup> adopted a resolution on the Commission communication, pointing out the importance of reform of the CAP, independently of the accession of new member states. Parliament stressed that enlargement would considerably increase the EU's agricultural potential and that CAP reform must be successfully concluded so that accession of the CEECs would be a success for all. It regretted that the section of Agenda 2000 on agriculture contained only piecemeal individual measures instead of an overall approach which could have given direction to all production sectors. In view of the difference between Community prices and those in the CEECs and the need for a rural development policy, Parliament considered that the CAP should not be extended to the new members, at least not in its current form. Long transition periods should therefore be considered. Moreover, Parliament considered that the 1992 reform should be extended to all sectors of agriculture, as this was a prerequisite for extending the CAP to the applicant countries.

The Luxembourg **European Council** (December 1997) adopted the Agenda 2000 options concerning enlargement and stated that the reinforced pre-accession strategy aimed to enable all the CEECs to join the EU and to this end, to align themselves as closely as possible with the EU acquis before accession. Although the European Agreements remained the foundation for relations between the EU and the CEECs, the convergence strategy was based now more on accession partnerships and on reinforcing pre-accession aid.

- Accession partnerships bring together all the forms of available aid within a single framework adapted to the needs of each applicant country and include:
  - the priorities for each country with regard to incorporating the Community acquis;
  - the financial means (including PHARE) available to achieve these priorities.
- Reinforcing pre-accession aid:
  - ECU 100 million has been provided for 1998 and 1999 for the five CEECs with which succession negotiations have not yet begun (catching-up fund).

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<sup>1</sup>COM(97)2000 final. Volume I: For a stronger and wider Union. Volume II: The challenge of enlargement.

<sup>2</sup>A4-0368/97, OJ C 388, 22.12.1997, p. 17.

- From 2000 until 2006, pre-accession aid for all the CEECs will be increased; it will include aid for agriculture (ECU 0.5 billion per year), a structural instrument (ECU 1 billion) similar to the Cohesion Fund, in addition to the PHARE programme (ECU 1.5 billion per year towards increasing administrative and judicial capacity and investment relating to the adoption and application of the *acquis*).

## **2.2. Legislative proposals, March 1998**

On 18 March 1998 the Commission presented its legislative proposals with the legal texts which would provide the basis for the decisions to be taken on the political reforms proposed in Agenda 2000 (regulations on agriculture and in relation to the Structural Funds) and on the new instruments for pre-accession aid. The Commission also adopted a proposal on the new financial perspectives for the period 2000 to 2006.

### **2.2.1. Reform of the CAP**

The measures proposed by the Commission<sup>1</sup> provide overall confirmation of the Agenda 2000 approach: principally, they aim to reduce guaranteed prices, compensated by an increase in direct support to farmers. The Commission considers this approach essential to increase the competitiveness of European agriculture and to prepare the EU for enlargement towards the East and for the forthcoming WTO trade negotiations. As prices are lowered, direct aid to producers will be increased and will be implemented in part in the context of a financial package which the Member States may redistribute, according to Community criteria, according to their own specific priorities. Moreover, this aid will be subject to degressive ceilings per farm.

- Arable crops: the intervention price for cereals will be reduced by 20% in one phase, in the year 2000, while direct aid will be increased from ECU 54 per tonne to ECU 65 per tonne.
- Beef and veal: market support will be reduced by 30% in three equal phases, from 1 July 2000. On the same date, the current intervention system will be replaced by a private storage system. Direct aid will be increased for male bovines and suckler cows. A new direct aid will be introduced for dairy cows. The amount of direct aid will be divided into basic Community aid and additional aid governed by national provisions.
- The dairy regime: the Commission proposes reducing intervention prices for butter and skimmed-milk powder by 15% in four phases.
- Milk quotas: a system of milk quotas will be maintained until 31 March 2006. As a result of the effect of reducing prices by 15% on internal consumption and export, the Commission proposes increasing the total reference quantity by 2% in four phases. This additional quantity should benefit the categories of producers needing particular support, i.e. those in mountain areas, in the Nordic zones and young farmers.
- Mediterranean products: the Commission has adopted a proposal on olive oil and a proposal for wine will be presented in June.

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<sup>1</sup>COM(98)158.

- Rural development: the Commission proposes adopting a new regulation on aid for rural development to be provided by the EAGGF Guidance Section (in the Objective 1 regions) and the Guarantee Section in the other regions.
- Horizontal measures: the Commission has adopted a proposal for a horizontal regulation defining the common provisions for conditional support linked to respect for environmental criteria, adjusting aid in line with the amount of labour employed and introducing a degressive element for large amounts of aid.

### **2.2.2. Instruments for pre-accession aid**

On 18 March 1998 the Commission also presented proposals on instruments for pre-accession aid. These include:

- a regulation on coordinating aid to the applicant countries,
- the PHARE regulation, which will continue to provide pre-accession aid,
- an Instrument for Structural Policies for pre-accession (ISPA),
- an Instrument for Agricultural pre-accession aid.

The first of the above regulations aims to coordinate and ensure coherence between the assistance granted in the context of pre-accession aid by the PHARE programme, the structural instrument (ISPA) and the agricultural instrument; it defines the fields of activity covered by each instrument.

For example, it is expressly stated that the pre-accession aid agricultural fund will finance measures to improve the structure of agricultural holdings, the processing and marketing of agricultural and fisheries products, phytosanitary and veterinary inspection and the quality of foodstuffs. Article 5 of the regulation states that 'aid for schemes or measures financed in the framework of pre-accession aid may be granted from one only of the instruments referred to in this regulation'. A coordination committee made up of representatives of the Member States and chaired by the Commission representative is to coordinate operations.

### **3. INSTRUMENT FOR AGRICULTURAL PRE-ACCESSION AID<sup>1</sup>**

As explained above, and in accordance with the Agenda 2000 approach and the conclusions of the Luxembourg European Council, applicant countries will receive special assistance in the form of pre-accession aid. This assistance aims to implement operations to support the current economic and social reform process in those countries and to prepare and facilitate the integration of their economies into the Community economy (enhanced pre-accession strategy). Special financial assistance under the instrument for agricultural pre-accession aid is granted to the CEECs to support agriculture and rural development. The framework for this aid is provided by the horizontal coordinating regulation mentioned above, and Article 235 of the Treaty is the legal basis.

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<sup>1</sup>COM(98)153 fin., presented by the Commission on 18 March 1998.

### **3.1. Objectives**

The proposal for a regulation establishes the framework for Community support for agriculture to be granted from 1 January 2000 to the ten applicant countries in Central and Eastern Europe. This aid complies with the conditions laid down in the framework of accession partnerships and aims to:

- solve priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries;
- contribute to the implementation of the *acquis communautaire* concerning the CAP and related policies.

Measures which may be supported by this aid are the following:

- investments in agricultural holdings;
- improving the processing and marketing of agricultural and fishery products;
- improving of the structures for quality, veterinary and plant-health controls;
- agricultural production methods designed to protect the environment and maintain the countryside;
- development and diversification of economic activities, providing for multiple activities and alternative income;
- setting up farm relief and farm management services;
- setting up producer groups;
- renovation and development of villages and the protection and conservation of the rural heritage;
- land improvement and reparation;
- establishment and updating of land registers;
- improvement of vocational training;
- development and improvement of rural infrastructure;
- water resources management;
- forestry, including afforestation, investments in forest holdings owned by private forest owners and processing and marketing of forestry products;
- technical assistance for the measures covered by this regulation, including studies to assist with the preparation and monitoring of the programme, etc.

### **3.2. Arrangements for assistance**

Community assistance is to complement corresponding national actions and is to be implemented by a cooperation procedure between the Commission, the applicant country and the other partners throughout the process, from preparation to final evaluation of the measures.

Initially, assistance measures will be the subject of a plan drawn up at the most appropriate geographical level. These plans will cover a maximum period of seven years and include a quantified description of the current situation, the proposed strategy, a prior appraisal, an indicative overall financial table (and a financial profile for each year), the names of the competent authorities, a definition of 'final beneficiaries', a description of the measures contemplated for implementing the plans and provisions ensuring correct implementation of the programme.

In their development plans applicant countries must ensure that priority is given to measures to improve market efficiency, quality and health standards and job opportunities while complying with environmental protection provisions.

The development plan is then forwarded to the Commission within six months of the regulation coming into force. The Commission is responsible for checking that the plan is consistent with the regulation and has six months to approve a rural development plan. The plan may, however, be amended later to take account of socio-economic development, the results of implementation of the actions concerned, action taken in the framework of the accession partnership and the national programme for the adoption of the *acquis communautaire*.

Support is subject to prior and mid-term appraisal, ongoing monitoring and ex-post evaluation. Monitoring is to be carried out by the Commission and the applicant countries, which must submit annual progress reports. A monitoring committee is to be established for each programme. In addition, the Commission is to present a report every two years to Parliament, the Council, the Economic and Social Committee and the Committee of the Regions on the Community support granted under this regulation.

### **3.3. Financial provisions**

The EAGGF Guarantee Section has annual resources for pre-accession agricultural aid of ECU 500 million at constant 1997 prices (the operation covers the period 2000-2006); the Community contribution will not exceed 75% of the total eligible public expenditure. The allocation to each applicant country will be based on objective criteria, such as the farming population, the agricultural area, the GDP and the specific territorial situation. On joining the EU the countries concerned will lose their entitlement under this regulation.

The Commission is responsible for the financial control of this aid; it can also reduce or suspend support for a measure if it does not seem to justify any part of the finance allocated to it.

### **3.4. Parliament Committee on Agriculture and Rural Development - hearing with the Commissioner, Mr Fischler**

On 19 May 1998 Parliament's Committee on Agriculture and Rural Development heard the Commissioner for Agriculture, Mr Fischler, on the subject of aid to the CEECs in the agricultural sector during the pre-accession period. Mr Fischler began by summarising the overall pre-accession strategy and then outlined the Commission proposal. The MEPs pointed out that agriculture weighed more heavily in the CEECs than in the EU and that a convergence strategy through pre-accession measures was essential, for example to prepare applicant countries for the *acquis communautaire*. In this context the MEPs put questions to the Commissioner and were sometimes critical of both the form and substance of the proposal for agricultural pre-accession aid.

The MEPs wondered whether it was reasonable to require the CEECs to define their priorities with regard to the organisation of the assistance and whether Article 4 (programming) did not require too high a level of development, particularly with regard to administration. Briefly, should not priority be given to local agents and private institutions rather than the whole project being supervised in a very bureaucratic way? Secondly, the MEPs took the view that the Commission proposal covered too many different elements and included a bit of everything. Should some priorities have been set in advance? The MEPs were doubtful whether the measures on forestry or the development of villages should be included among the priorities in the context of accession preparation. With regard to finance, the amount of assistance was criticised, some MEPs considering that the EU risked falling short of expectations; there was a comment also about the lack of the funding needed for adapting agriculture. There were also questions on whether the aid would continue once the applicants became members of the EU.

Mr Fischler defended the proposed regulation. Firstly, he considered that the CEECs should not all be treated in the same way; consequently, pre-accession agricultural aid must make it possible to differentiate between the applicants (even though the approach was general because it was impossible to provide individual frameworks for aid). Good programming of assistance was far from unnecessary; it was in fact essential to define the objectives when the funds were released, so that their use could be monitored. Moreover, programming would enable the applicants for example to become familiar with the existing regulations for the Structural Funds.

With regard to granting appropriations, the Commissioner said that the precondition was the presence of a financial basis with regard to the future of the rural environment, this was an important problem as in view of the structure of the CEECs, he feared that changes in agriculture would mean a sharp reduction in jobs in the sector and thus significant decline in rural areas. The Commissioner also defended the financial arrangements for pre-accession aid, and stated that the funding for enlargement was achievable, while keeping the Community budget below the ceiling of 1.27% of the EU GDP. The annual amount of ECU 500 m for agricultural aid was intended for all the CEECs until their accession; the multiplicity of proposed measures made it possible to take account of the differences between the CEECs, but individual priorities would be set.

#### **4. WORK IN PROGRESS IN THE EUROPEAN PARLIAMENT**

On 4 December 1997 Parliament adopted a resolution on Agenda 2000 following its presentation in July 1997, but in view of the importance of the agricultural aspects of this document, instructed the Committee on Agriculture to draw up an own-initiative report on revision of the common agricultural policy in the context of Agenda 2000. The rapporteur was Mr A. Cunha and the report, adopted by Parliament on 19 June 1998, proposes that a genuine European model for agriculture be established. By its vote on this resolution, Parliament expressed an overall view on the situation of European agriculture and identified general principles and guidelines which form a reference framework for the sectoral reports which will be voted on subsequently. With regard to enlargement, Parliament proposes two phases for the transition: during the first phase, priority would be given to rural development policy, modernisation of structures and harmonisation of veterinary and phyto-sanitary legislation. During the second phase prices would be harmonised and direct aid to farmers introduced.

The sectoral reports on reform of the agricultural policy are currently being drawn up within the Committee on Agriculture. Voting in the plenary on these various reports is planned for the November 1998 part-session for the draft regulation on rural development and pre-accession measures and January 1999 for reform of the common organisation of the market in beef, milk, cereals and wine, as well as the financing of the CAP and the regulation on ceilings for aid.

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The CEEC Compared to the EU

	Gross Domestic Product 1996 (bio ECU) (% of Agr.)		Population (in mio)	Employment (% of Agr.)	Agr. Area		EU Import (cif) Agricultural Products (1997)		EU Export (fob) Agricultural Products (1997)	
	ECU	% of agr.			(in mio ha)	in %	(in 1 000 ECUs)	as % of total	(in 1 000 ECUs)	as % of total
<u>CEFTA</u>										
Czech Republic	43.9	4.8(a)	10.3	6.3*(c)	4.28	647 461	5.5	974 649	6.2	
Hungary	32.9	5.8	10.2	8.4*(c)	6.18	1 139 979	9.8	523 232	3.9	
Poland	105.9	6.0	38.6	22.1*(c)	18.62(a)	1 313 140	9.3	1 709 195	6.8	
Slovak Republic	14.5	5.2	5.4	9.7(a)	2.45(b)	191 934	4.8	265 502	5.5	
Slovenia	14.2	3.8	2.0	7.1(a)	0.79	139 302	3.0	456 865	7.2	
Romania <sup>1</sup>	23.1	19.3	22.7	34.4(a)	14.79	204 534	4.6	274 332	5.5	
Bulgaria <sup>2</sup>	7.4		8.4	23.2(b)	6.16	271 067	13.0	187 789	10.2	
<u>Baltic Countries</u>										
Estonia	3.3	7.1 (a)	1.5	13.1(a)	1.45	293 807	19.7	290 366	12.2	
Latvia	3.9	10.8	2.5	18.5(a)	2.45	437 934	34.3	214 402	14.0	
Lithuania	4.9	9.4	3.7	23.8(a)	3.50	226 857	17.4	311 996	14.6	
CEEC-10	254.2		105.3	17.0	60.76	4 866 015	8.6	5 208 328	6.6	
EU-15	6 764.1		372.7	4.6(c)	134.66					
CEEC/EU	3.8									

(a) 1995 (b) 1994 (c) 1997 Where not specified figures refer to 1996.

Sources: EUROSTAT, June 1998, Comext 2 K 0097 304.txt

\* OECD, Quarterly Labour Force Statistics, Number 1, 1998.

1) CEFTA-member since 1996 2) Membership negotiations with Bulgaria are under way