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REPORT

on Hungary's application for membership of the European Union and the state of negotiations.

(COM(1999) 505– C5-0028/2000 – 1997/2175(COS))

Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy

Rapporteur: Luís Queiró

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PROCEDURAL PAGE

By letter of 20 October 1999 the Commission forwarded to Parliament its Regular Report on Hungary's progress towards accession (COM(1999) 505 – 1997/2175(COS)).

At the sitting of 21 January 2000 the President of Parliament announced that she had referred this report to the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy as the committee responsible (C5-0028/2000).

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy had appointed Luis Queiró rapporteur at its meeting of 23 September 1999.

The committee considered the Commission report and draft report at its meetings of 22 June and 14 September 2000.

At the latter meeting it adopted the draft legislative resolution unanimously.

The following were present for the vote: Elmar Brok, chairman; Baroness Nicholson of Winterbourne, William Francis Newton Dunn and Catherine Lalumière, vice-chairmen; Luís Queiró, rapporteur; Bastiaan Belder, Andre Brie, Gunilla Carlsson, Maria Carrilho (for Rosa M. Díez González), Michael Cashman (for Linda McAvan), Daniel Marc Cohn-Bendit, Paul Couteaux (for Jean-Charles Marchiani), John Walls Cushnahan, Andrew Nicholas Duff (for Bertel Haarder), Monica Frassoni (for Per Gahrton), Ingo Friedrich, Michael Gahler, Cristina García-Orcóyen Tormo (for Gerardo Galeote Quecedo), Jas Gawronski, Alfred Gomolka, Klaus Hänsch, Magdalene Hoff, Giorgos Katiforis (for Alexandros Baltas), Jan Joost Lagendijk, Alain Lamassoure, Cecilia Malmström (for Francesco Rutelli), Claudio Martelli, Emilio Menéndez del Valle, Philippe Morillon, Pasqualina Napoletano, Raimon Obiols i Germa, Arie M. Oostlander, Jacques F. Poos, Mechtild Rothe (for Ioannis Soulidakis), Jannis Sakellariou, José Ignacio Salafranca Sánchez-Neyra, Jürgen Schröder, Elisabeth Schroedter, Ursula Stenzel, Ilkka Suominen (for Hans-Gert Poettering), Hannes Swoboda, Freddy Thielemans, Johan Van Hecke, Geoffrey Van Orden, Paavo Väyrynen, Demetrio Volcic (for Mário Soares), Jan Marinus Wiersma, Matti Wuori, Christos Zacharakis, Elisabeth Jeggle (for Silvio Berlusconi pursuant to Rule 153(2)).

The report was tabled on 19 September 2000.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on Hungary's application for membership of the European Union and the state of negotiations (COM(1999) 505 – C5-0028/2000 – 1997/2175(COS))

The European Parliament,

- having regard to Hungary's application for membership of the European Union submitted on 31 March 1994, pursuant to Article 49 of the TEU,
 - having regard to the opinion of the Commission on this application (COM(1997) 2001 – C4-0373/1997),
 - having regard to the 1999 Regular Report on Hungary's progress towards accession (COM(1999) 505 – C5-0028/2000) and to the 1999 Composite Paper of the Commission (COM(1999) 500 - C5-0341/2000),
 - having regard to the decisions taken at the European Council, notably in Copenhagen (21 and 22 June 1993), Luxembourg (12 and 13 December 1997), and Helsinki (11 and 12 December 1999),
 - having regard to the Europe Agreement between the European Communities and its Member States of the one part and Hungary of the other part,
 - having regard to the Accession Partnership for Hungary,
 - having regard to its resolution of 15 April 1999¹ on the first Regular Report from the Commission on Hungary's progress towards accession,
 - having regard to Rule 47(1) of its Rules of Procedure,
 - having regard to the report of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy (A5-0248/2000),
- A. noting that in Hungary the overall situation as regards democracy and the rule of law continues to be satisfactory and that human rights and respect for fundamental rights are upheld within the country,

¹ OJ C 219, 30.07.1999, p. 439

- B. noting that Hungarian foreign policy, with particular regard to the situation of Hungarian minorities outside Hungarian borders and to developments in the Balkans, is already making a significant contribution to the political stability in the region,
- C. whereas, as regards the question of ethnic minorities, insufficient attention continues to be paid to the situation of the Roma. The Roma minority suffers severe discrimination in education, on the employment market, within public services and in civil society. Education for Roma children is segregated, the level of education is very low and unemployment among Roma is alarmingly high. Discrimination against the Roma may, for the most part, be regarded as an attitude problem, which the Hungarian Government must tackle seriously. It should be possible to find a solution given that a Minorities Office has been set up and medium-term legislation has been passed which will help them to become integrated into Hungarian society,
- D. whereas Hungary has consolidated its economic growth, and whereas this growth makes the country the economic leader in its region; whereas, in the opinion of the Hungarian authorities, structural adjustments could enable Hungary to achieve a GDP growth rate of approximately 7% per year in the medium term,
- E. noting that reforms to public finances and improvements to the balance of payments have enabled the country's external debt to be reduced, and noting that an increase in consumption is apparent, as is a continuing increase in wages following an earlier period of restraint,
- F. drawing attention to the fact that, if Hungarian agriculture is to achieve EU productivity levels and if the people it employs are to achieve income levels which are more or less comparable with those of EU farmers, the agricultural market will have to be completely opened up to the capital which is needed for privatisation and the establishment of healthy, viable agricultural businesses will have to be encouraged,
- G. having been informed that the Hungarian Parliament has adopted a set of legislative texts including measures to eradicate money-laundering and racketeering, to outlaw criminal operations and to increase penalties for drugs trafficking and prostitution,
- H. noting with satisfaction that a cross-border environmental protection agreement has been signed by Hungary, Slovakia, the Ukraine and Romania, and pointing out that this agreement should help to prevent ecological disasters such as the one which recently affected the Danube and the Tisza following a discharge of cyanide,
- I. noting with satisfaction that a joint declaration on cross-border environmental protection has been signed by Hungary, Slovakia, the Ukraine and Romania, and pointing out that implementation and EU monitoring of this agreement could help to prevent ecological disasters such as the one which recently affected the Danube and the Tisza rivers following a discharge of cyanide,
- J. aware that Hungary is making steady and satisfactory progress in bringing its domestic law into line with EU law,
- K. whereas the meetings which have so far been held by the EU-Hungary joint

parliamentary committee have made a significant contribution to mutual understanding and will continue to exert a favourable influence on preparations for accession,

- L. noting with satisfaction that Hungary has drawn up a national programme for the adoption of the Community patrimony with very strict deadlines, and hoping that the Council, too, will fulfil the commitment it gave at the EU Summit in Helsinki to create, by 2002, the conditions for the accession of new Member States,
1. Notes democratic support within the Hungarian Parliament for Hungary's accession to the European Union and advocates greater efforts to secure a consensus amongst the Hungarian people on that issue;
 2. Stresses, however, the need for firm, foreseeable dates for the conclusion of the negotiations and for accession to be established as soon as possible in order to help prevent disappointment or even discontent within certain sectors of Hungarian society;
 3. Expects both Hungary and the European Union to make every effort to create the conditions for accession at the earliest possible opportunity;
 4. Confirms that Hungary has fulfilled the Copenhagen political criteria;
 5. Hopes that the medium-term measures intended to prevent discrimination against the Roma community (particularly in the fields of education, employment, healthcare and housing) will provide a useful means of integrating that community into Hungarian society on a basis of mutual understanding; calls on the Hungarian authorities to establish the appropriate structures and institutions for the successful implementation of integration policies, to involve local authorities closely and to enhance Roma participation in policy-making processes;
 6. Urges the Hungarian Government and Opposition to solve without delay the problem of the balance between the various political and party forces within the governing body of the state television company and, over and above that, expects enhanced consultation between Government and Opposition on matters relating to Hungary's accession to the European Union;
 7. Emphasises that the existence of a representative and autonomous social dialogue constitutes an indispensable element of the accession preparations and urges the Hungarian Government to involve closely the social partners as well as NGOs in economic and social policy-making processes;
 8. Advises the Hungarian Government to step up its fight against organised crime, drugs trafficking and corruption in the wake of the progress made following the entry into force of the legislation known as the 'anti-mafia package';

9. Recalls that Hungary serves as a transit and destination country for trafficking in women, a phenomenon which is increasing in scale, and calls on the Hungarian Government to take effective measures to combat trafficking and to ensure that victims of trafficking are guaranteed effective protection, support and rehabilitation;
10. Notes the positive economic-growth indicators, which are accompanied by a downward trend in inflation – although the latter is still substantially higher than in the euro area;
11. Draws attention to the need to enhance policies (like the Széchenyi Plan) designed to stimulate micro, small and medium-sized businesses, which account for nearly half of the country's GDP and provide employment for two-thirds of the total work force, with particular reference to taxation and competitiveness;
12. Notes that, in the agricultural sector, non-nationals are still unable to purchase cultivable land and points out that the prudent adoption of a market policy could help to ensure that optimum use is made of such land;
13. Emphasises the need for the modernisation of Hungarian agriculture, for which EU aid is, however, indispensable and in respect of which an increase in market outlets for Hungarian agricultural products on the European Union's internal market is essential;
14. Welcomes the efforts made by the Hungarian Government to consolidate and pursue structural reforms relating to the budget, the civil service, pension schemes and privatisation which will enable the country in the medium term to withstand EU competitive pressures and market forces;
15. Considers, however, that the restructuring of the health sector must be speeded up in view of the significant burden which it places on the public purse; notes in this connection the adoption of the new arrangements relating to hospitals and the opportunity for general practitioners to work privately;
16. Welcomes the 13% increase in the 2000 budget for the environmental sector;
17. Urges the government to renew its efforts to bring the relevant legislation into line and to adopt measures to monitor air and water quality, to prevent and combat industrial pollution and to manage the various types of waste;
18. Welcomes the recently adopted framework law on waste management and calls on Hungary to continue its legal harmonisation work in this field as quickly as possible; takes the view that the hazardous industrial waste bill approved by the Hungarian Parliament on 23 May 2000 should be applied as a matter of urgency;
19. Notes that, because of its central geographical location, Hungary is one of the most important partners for combating problems involving cross-border pollution, as recently occurred in the Danube and Tisza rivers; welcomes, therefore, the 'Joint Declaration' on environmental protection concluded between Hungary and its neighbours Slovakia, the Ukraine and Romania with the aim of preventing and combating cross-border environmental pollution, subject to strict EU monitoring of its application;

20. Welcomes the decision of the Hungarian and Slovak Governments to re-open the Maria Valeria Bridge as a sign of European integration and to promote freedom of movement;
21. Instructs its President to forward this resolution to the Council, the Commission, the parliaments of the Member States and the Hungarian Government and Parliament.

EXPLANATORY STATEMENT

1. Political criteria

It was stated at the Copenhagen European Council that accession requires the applicant countries to have institutions which guarantee democracy, the rule of law, human rights and both respect for, and protection of, minorities.

As regards democracy and the rule of law, the overall situation in Hungary continues to be satisfactory: democratic developments are being consolidated and this supports the positive trends which were noted in previous opinions. Despite these positive developments, however, inadequate efforts have been made to remedy the institutional shortcomings identified in those opinions. The weakness of the judiciary continues to be a problem, and this applies both to the training of judges and to the reform of the judicial procedures designed to reduce the excessive length of time it takes for cases to be dealt with.

As regards human rights, respect for fundamental rights is guaranteed in Hungary. The European Parliament takes the view, however, that the independence of public state radio and television should be further strengthened through the appointment to the governing body of four representatives from opposition groups.

As regards minorities, the situation of the Roma remains problematic. Although their legal status and their rights have been firmly established following the setting-up of the Minorities Office, they continue to suffer discrimination and social and economic exclusion. It should, however, be noted that the government has approved a set of medium-term employment, education and housing programmes intended to facilitate integration on the part of the Roma. As for the Hungarian minority living in Romania, there are signs that their situation has improved at all levels of public life, one of those signs being the willingness of the Romanian authorities to allow a German-Hungarian university to be set up. The situation of the Hungarian minority in Czechoslovakia has hitherto been a source of concern, although the inclusion of representatives from the Hungarian minority in the new Slovak government has given a positive signal to that minority as regards its status in Slovakia.

2. Economic criteria

Following the recovery which has occurred over the last few years, Hungary has consolidated its economic growth, which has been stimulated by a steady flow of direct foreign investment. This has helped to modernise the economy and increase the growth rate. GDP rose by 4.4% in 1997, 4.7% in 1998 and 4.3% in 1999.

This growth makes Hungary the economic leader in its region and the Hungarian authorities believe that structural adjustments could enable the country to achieve a medium-term GDP growth rate of approximately 5%.

Public finances have been reformed and there has been a notable improvement in the balance of payments. These factors have enabled the country's external debt to be reduced. The slowdown caused by the 1995 stabilisation programme has given way to an acceleration in growth which is mainly characterised by a significant increase in industrial production.

In this connection we may note the development of export sectors which have benefited from foreign investment. In 1999, machine and tool production further increased by over 35%, thanks to an increase in exports. Production of telecommunications and office equipment doubled and car production increased by 50%. Capital investment is continuing to grow (by 8.8% in 1997 and 12.1% in 1998) and in this recent period the country has further strengthened its external position:

- in 1997 the current-account deficit was 40% lower than in 1996 on account of the fact that the trade deficit fell by over a third and the balance on tourism improved;
- in 1999, foreign trade continued to stride ahead, with exports being 8.7% higher than imports during the first three quarters of the year.

An increase in consumption has been observed, as detailed hereunder.

The continuing increase in wages (following an earlier period of restraint) and the fall in unemployment have resulted in a 1.5% increase in consumption in the first three months of 1998, as against 0.9% for the whole of 1997. This applies both to industrial sales and to the retail sector. Significant increases have been recorded in sales of furniture, domestic appliances and motor cars, which is an indication of consumer confidence.

The inflation rate has followed an encouraging trend, falling from 18.3% in 1997 to 14.2% in 1998 and 10% in 1999. For the year 2000 the Hungarian authorities are forecasting a rate of between 6 and 7%. The unemployment rate fell from 10.4% in 1997 to 9.1% in 1998.

Budget policy has remained unchanged and the results are in line with the targets which had been set: the deficit fell to 4.8% of GDP in 1997 and 1998 and it further declined (to 3.9%) in 1999. The forecast for the year 2000 is 3.5%.

The external debt began to fall in 1996 (\$27 billion as against \$31.5 billion in 1995) and fell further in 1997 (\$23.7 billion) before increasing slightly in 1998 (\$25.1 billion).

The new government drew up a strict budget for 1999, based on a deficit of 3.9% of GDP. This deficit is expected to fall to 3.5% of GDP in the year 2000 and then to 3% in 2001.

The government has scaled down its forecast for 1999 growth: 5% instead of the 7% envisaged earlier on the basis of the new EU growth forecast produced by the Commission (2.4% instead of 2.8%). The forecast for the 1999 inflation rate has also been revised downwards from the original 11-12% to 10-11%.

Two factors have affected the government's objectives. The first is the constant increase in the social security deficit, from 51 billion forints in 1997 to 77 billion in 1998 and 193 billion in 1999 – a deficit which is charged against the state budget. The second factor is the government's decision to increase agricultural subsidies from 104 billion forints to 155 billion in 1999, which has further added to the budget deficit.

There has, however, been a bright spot in the development of the economy: the impact of the Russian crisis has been lessened by the fact that Hungary's trade is now mainly with the European Union; Russia currently accounts for only 4% of Hungary's exports and 7% of its imports. The Hungarian Minister for Economic Affairs considers that the total collapse of

exports to Russia has reduced growth by only 0.3 to 0.4%.

3. Agriculture

Generally speaking, Hungarian agriculture appears to be divided into:

- excessively large, inefficient farms which are a legacy of the land-collectivisation era, and
- small farms engaged in semi-subsistence farming.

If Hungarian agriculture is to achieve EU productivity levels and if the people it employs are to achieve income levels which are more or less comparable with those of EU farmers, the following steps will have to be taken:

- the agricultural market will have to be completely opened up to the capital which is needed for the purpose of privatising land, modernising farms and downstream structures and improving yield. The obstacle posed by the ban on land purchases by non-Hungarian citizens must be removed as soon as possible, although Hungarian agriculture and farmers must not be made to undergo a traumatic transition;
- if EU experience is anything to go by, the establishment of healthy, viable agricultural businesses will have to be encouraged. Improving the productivity of the workforce is not just a question of yield; it also stems from a socio-structural choice regarding the restructuring of farms and the pattern of change in the active farming population.

4. Organised crime

The high crime rate and the serious impact of organised crime are probably the most worrying internal issue in Hungary. Following the murder last July (by means of a bomb placed in his car) of a police informer who was very well known in Hungary, and also of his lawyer and two assessors, a task force on organised crime was set up. In November the police, customs officers and border guards arrested 200 petty criminals in the course of a one-day round-up. The Hungarian parliament has adopted a set of legislative texts including draft laws on measures to eradicate money laundering and racketeering, to outlaw criminal operations, to increase penalties for drugs trafficking and prostitution, to introduce laws on the seizure of funds and to set up a witness-protection programme for informers.

Following the entry into force of such laws, the Ministry of the Interior estimates that 200 gangs (mainly controlled by Russians) have been broken up. However, there is still work to be done in this area and in order to counter the threat the USA has set up a Hungary-USA strike force against organised crime. For a month now the FBI has been training police officers in Hungary and other central European countries and has been providing legal and scientific assistance in investigations.

5. Adoption of the *acquis*

Hungary is steadily bringing its domestic law into line with EU law. The rate of transposition has remained constant and has generally been accompanied by appropriate financial and institutional measures which are facilitating the implementation of the law. A slowdown in transposition in certain sectors such as environmental protection has been balanced by a strengthening of implementing structures.

This suggests that the objective of actual implementation instead of mere transposition should be pursued in a consistent fashion. There has been constant concern as regards the completion of the internal-market legislative framework. Hungary has fulfilled the short-term priorities of the Accession Partnership in the fields of economic reform, the tightening-up of veterinary and plant-health rules, the strengthening of institutions and financial control, and also in the area of justice and internal affairs. Inadequate attention has been paid to the strengthening of institutions involved in regional development and to internal-market priorities relating to copyright law and public procurement, and also to the implementation of laws on state aid.

Hungary has continued to progress in the development of its administrative ability to implement the *acquis* and has devoted particular attention to developing specific training courses in the field of Community law and policies.

This attention demonstrates how seriously it takes the enhancement of its administrative capacities in connection with accession. However, it also needs to make significant improvements to its ability to use, manage and monitor EU financial assistance.

6. The environment

Hungary's geographical situation causes the country many cross-border pollution problems, of which the recent events involving the Danube and the Tisza (rivers polluted by cyanide discharged by a factory in Romania) provide a classic example. For this reason the agreement recently concluded between Hungary, Slovakia, the Ukraine and Romania, which allows for joint action when pollution occurs, should be welcomed.

Furthermore, the remarkable 13% increase in the budget allocated to the environment for the year 2000 demonstrates Hungary's desire for modern instruments and effective laws in the environmental field. In 1998 the Hungarian Government adopted a highly ambitious national programme designed to protect the environment, which included an investment programme for the 1998-2002 period. The Hungarian authorities also decided to set up an interministerial committee on sustainable development which brings together key figures from the environment, agriculture, transport and other ministries, who wish to ensure that the environment is taken into account in other sectors, and the authorities have stated in addition that they intend to harmonise environmental law by the end of 2001.

The two main problems facing Hungary are air quality and waste management. As regards the first of these, Hungary is very slowly identifying highly polluted areas, although where waste management is concerned, little progress has been made over the last two years. Despite this problem (which is one of the priorities for the 1998 programme), it has so far proved impossible to implement a law which would bring order to the sector. According to the Commission the waste sector is the weakest of all in Hungary and, since a large part of the

relevant *acquis communautaire* must be incorporated into Hungarian law, priority must be given to the adoption of a law on waste management. This would enable Hungary to adopt the secondary legislation which it currently lacks relating to the various types of waste, especially hazardous industrial waste.

7. Conclusions

Taking into account all the above comments and the general impression gained from two visits to Hungary, your rapporteur firmly believes that the country is showing no let-up in its efforts to achieve its ambition of EU membership and that this national objective (which the EU supports) can be striven for confidently by the Hungarian people and authorities.