

Pre-Accession Impact Studies III

EXECUTIVE SUMMARIES

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Study no. 1: Analysis of absorption capacity of the EU funds in Romania

This work represents the final outcome of the research devoted to “**The Analysis of Absorption Capacity of the EU Funds in Romania**)” - Study no. 1, included in the PAIS III project.

A significant part of this study has been elaborated after October 25, when The Monitoring Report on Romania was issued by the European Commission. Relating to the administrative capacity for regional policy and the Structural Instruments coordination (Chapter 21) The Report has pointed out, as a basic idea, that “*There are serious concerns in relation to the administrative capacity of the institutional structures, and in the area of financial management and control. Immediate action is required to strengthen administrative capacity across all concerned bodies at national, regional and local level...*”.

The Report’s conclusions have suggested the following priority actions:

- measures are needed in order to strengthen the administrative capacity across all main ministries and the other relevant bodies;
- the number of employees and the pace of employment should be increased, in order to recover the backwardness;
- the cooperation between the central and local administration should be substantially strengthened;
- co-financing mechanisms, especially at local level, should be established and clarified;
- for the programming activity, the partnership principle should be effectively implemented;
- the financial management and the control are still characterized by structural weaknesses and should be considerably strengthen in order to avoid the future irregularities.

Realising the expectations and the interest in a study devoted to a topic of a maximum priority for the successful accession of Romania to the European Union the authors have chosen, instead of an exhaustive approach, of – possibly – less relevant results, to concentrate on a very concrete aspect, of a special significance to all institutions involved in increasing the absorption capacity of the EU funds, namely the *evaluation* of the administrative absorption capacity in the design field, for the three main phases – management, programming, implementation – taking into consideration, as defining elements, the structure, the human resources and the systems, tools requested. Subsequently, a series of considerations regarding the financial absorption capacity have been formulated, with a particular emphasis on the co-financing capacity of the local public authorities.

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The methodology employed has been the one conceived by the European Commission at the beginning of 2002 for evaluating the administrative absorption capacity of the candidate countries (at that time). It has been applied using a questionnaire elaborated by the study's authors. The questions have been answered by all Management Authorities and most of the Intermediate Bodies. The results of the discussions with officials of the institutions involved, with Romanian and foreign consultants, with officials of the European Commission and its Delegation at Bucharest and other persons interested in this topic have been also added.

The conclusions and recommendations of the study are presented below^{*}, hoping that they will contribute to the efforts undertaken in Romania in order to ensure a good absorption capacity of the EU funds.

- The administrative absorption capacity of post-accession funds is still insufficient, due to significant and numerous weaknesses which must be tackled in the period of time before accession.
- A massive inflow of funds will have certain effects on aggregate demand, which will in turn put pressure on inflation, exchange rate, balance of payments and current account etc.
- There is a distinct feeling of lack of authority and coordination in the process of preparation for the administration of EU funds. Until the end of accession negotiations, the Ministry of European Integration played the catalyst of such efforts, in order to push various negotiation chapters forward. Once this process concluded, things got somewhat more relaxed.

*While keeping in mind that concepts such as decentralisation or subsidiarity are key ideas of EU philosophy, a certain degree of re-centralisation is necessary in order to provide **institution building of an appropriate absorption capacity**. The set up of a Working Group, with real powers (authority regarding information collection, but also decision-making powers), at Government level, which should monitor (with a view to accelerate) all aspects related to enhancing the absorption capacity, might prove a good idea.*

- The institutional structure for the administration of structural instruments was defined and was approved by the European Commission during the accession negotiations on Chapter 21. We may conclude that the institutional structure is adequate, with all premises for a good management in place. There are still some institutions (intermediary bodies especially) where the position of the future liaison point with the post-accession fund management mechanism is not yet clearly identified on the organisation chart. This is also due to the fact that specific responsibilities have not yet been devolved at implementation body level.

As regards institutional structure, it would probably be beneficial to have a better connectivity between the entire structural fund management system at higher levels of the Government. Communication and regular debates, at minister level, on the issues linked

^{*} Recommendations are written with Italics.

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to the activation of the structural funds management structures would be highly desirable, in order to better prioritise this process.

- Overall, less than 40% of staff has practical experience in working with EU funds. At MA level, the percentage of staff with practical experience varied between 20% and 40%, with only one MA (whose planning/programming unit comprises only 3 FTEs) being staffed entirely with FTEs deemed to have relevant experience. At IB level, the most frequent situation is having 1-2 FTEs with experience covering analyses, drafting strategies and quantifying objectives, but there are also two situations where no staff has any relevant experience. Under such circumstances, the solution is specialised training for the staff.

Specific training focused on structural funds is necessary for staff of all institutions involved, especially IBs. Most of these have benefited from general training or training on issues totally different from their own activity (stress management, leadership and motivation, conflict management, communication etc.). MA CSC is well positioned to coordinate this training.

- Providing the required human resources and their training is a critical issue for structural fund management. A series of budget constraints has hindered the staff recruitment process, so that understaffing would be the best word to describe the situation as compared to Romania's commitments under Chapter 21. On the other hand, organisation charts have been, in some cases, overblown, lacking appropriate level of detail.

It is advisable to avoid extremes, by making HR policy more flexible. Understaffing should be avoided, but neither is desirable to hire extra civil servants just to tick boxes (see situations where hiring is done mainly through rotation within the same institution, without much preoccupation for skills). MAs and IBs should assume responsibility and must be directly involved in the hiring process, as they best know the skills they are looking for in new staff. Involvement of MA CSC should represent a real support for unlocking financial resources needed for extra staff where necessary, but also for consultations when there is propensity to misuse/waste public funds through overstaffing with no solid justification by MAs/IBs.

- Given the novelty and complexity of topics related to the usage of structural and cohesion funds, as well as the lack of experience in this field, technical assistance may be vital. Most of MAs (70%) and most of IBs have been the beneficiaries of such assistance, which would suggest some exposure of their staff to EU standards and requirements. However, the efficiency of twinning projects does not match expectations, and both sides are to blame for lack of communication and involvement. Firstly, in many instances, real involvement by EU institutions is rather formal. Secondly, technical assistance schedule was established, more often than not, by the foreign counterparty, which only seldomly had had direct contact with the Romanian environment. Thirdly, quite often, the contents of training courses are determined by the qualification of the foreign experts that can be sent to Romania at certain moments in time.

Apparently, a thorough analysis of the twinning projects is needed. Such projects can be expected to make a massive contribution to a better absorption capacity. In other words,

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we must put technical assistance to good work. The Romanian side has to identify the weak spots and formulate a shopping list for training. This evaluation must be done on a case by case basis, as the situation varies among different institutions.

- Incentives for staff remains a priority, to avoid high personnel turnover when employees reach a level of expertise better remunerated by the private sector. There are also non-salary incentives which can motivate civil servants, such as career plans, stability, prestige, or EU exposure. It is critical to maintain a high level of involvement of structural funds management staff, by making visible their unique role in the overall progress of the country. Last but not least, salary should be constantly matched to the professional ability and responsibility of the respective employee.

Civil servants could be incentivised by corporate-like methods, such as performance-based bonus. While the bonus can be money, it could also be given as incentive trips, gifts, or health insurance etc. Such measures would induce extra flexibility in the civil service remuneration scheme. Besides, career planning must be made a priority as soon as possible, to ensure that employees are aware of the importance the administration places on them and avoid defections. Another recommendation refers to institutional memory building, so that every document or debate can be archived, preferably in electronic format, and thus create a stable basis in case key staff leaves the institution.

- As regards the set up of the partnership framework, it has been noticed that only 50% of MAs use extended partnership networks at present, the others being in a relatively advanced stage of preparations. From a qualitative point of view, most MAs already select their partners from among the representative organisations relevant for the field covered by the operational plan/programme.

The activity should take place in an open environment, at institution level, as well as through an extended partnership. In the first situation, we refer to the collaboration with other units within the same institution, while in the second we consider an extended partnership to be a prerequisite for the programming activity (it is, after all, a compulsory condition for structural and cohesion funds programming).

- Coherence, coordination and lack of overlapping between operational programmes, their focus on really important issues, are extremely engrossing imperatives. All these cannot be achieved through desk work or by a top-down coordinating body. They can only be achieved through a bottom-up approach, founded on meaningful and functional partnerships. While all MAs participate in the working groups aimed at nation-wide coordination of planning, only half of the MAs are involved in the working groups for the drafting of other operational programmes.

Aside from the participation in the working groups expressly established to set up the operational programme which they coordinate, all MAs should also participate in the working groups drafting the other operational programmes, as well as in the working groups for nation-wide development planning (e.g. the NDP Inter-Institutional Committee), with a view to achieving coherent programming, and avoiding overlapping and conflicts. IBs should also be involved in these partnerships.

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- Systems, procedures, and instruments envisaged for structural funds management will be built in time, on the learning curve. Efforts to implement the Single Management Information System (SIMS) have started to yield results, with signs that it may become fully functional in 2006. Evaluation and monitoring are new processes, with shy beginnings, but with strong support via external technical assistance, funded by PHARE.

Another major challenge for the time ahead is internalising the evaluation and monitoring capacity, to decrease dependency on external technical assistance, which is very expensive and does not favour institutional memory building. A first step is on-the-job training. A second one would be to gradually outsource from domestic research-evaluation-monitoring institutions.

- Regarding the use of instruments, manuals, and procedures, only one MA has put in place a series of procedures, while the other MAs are only now drafting such procedures. Lack of procedures and of detailed methodologies, in connexion with the fragile structure of certain institutions, may represent a serious threat to the absorption process.

The urgent formulation and implementation of procedures is essential to the efficient roll out of planning and programming processes. In addition, this can – at least in part – eliminate the effects of an amplified staff turnover and can directly contribute to enhance staff skills and professionalism.

Many of the measures covered by operational programmes will comprise state aid-sensitive issues. This is a very specialised field and the involvement of the Competition Council is required starting with this programming phase.

As regards financial and especially borrowing capacity, Romanian LGs are faced with a series of issues, both objective and subjective in nature. Regarding the non-structural issues, we would mention (for further scrutiny and adjustment):

- Lack of an independent audit and low quality of financial data.
- Inappropriate structure of financial reports for a credit risk analysis.
- Insufficient regulation of various infrastructure sectors.
- Arbitrary and non-customised leverage cap.
- Lack of legal provisions on LG insolvency.
- Still problematic enforcement of collateral.

Concerning the rather objective hindrances, they can only be tackled in time, either by the evolution of the overall economic, social and political environment:

- Little or no track record on LG repayment behaviour (no time series).
- Significant uncertainty regarding LG revenues (both own revenues and intergovernmental transfers).
- Political risk is still high.

Study no. 2: The impact of capital account liberalization on exchange rate and the competitiveness of the Romanian economy

In the last decades, on a world level, there exists an intense preoccupation regarding the liberalization of capital account. In this paper it will be analyzed both the advantages and the disadvantages of capital account liberalization, the precursory conditions which should be fulfilled, and the optimum way to phase this important operation.

A special aspect regarding the measurement of capital account openness' level is represented by the distinction between the legal openness level and effective openness level. Generally, from the analysis of the current situation of different countries, the effective openness level is higher than that resulting from legal regulations. This fact indicates the avoiding of capital account regulations through different means. In the first part of the paper, in paragraph 2.1, the authors analyze the main types of indicators for the measurement of the openness level of the capital account, used on world level, with an accent on the distinction between the effective and legal openness level.

As it is showed by the experience of different countries, the liberalization of the capital account generates many advantages for the national economy: a better allocation of capital and the reduction of its cost. Also, the liberalization of the capital account contributes to the development of the general financial system of national economy and has major impact on economic growth. In paragraph 2.2 some theories and models regarding the identification of the capital account liberalization influence on the financial system and on the process of economic growth are analyzed.

Following the application of the Maastricht Treaty, the European Union countries have liberalized the capital movements, creating the premises for the introduction of the single currency. With the perspective of EU integration, Romania has been engaged in the liberalization of capital flows, elaborating a coherent strategy for the complete liberalization of the capital account. Chapter 3 is reserved for the presentation of the Romanian strategy for the capital account liberalization, and also for the analysis of the main phenomena which appeared after the implementation of this strategy.

For Romania, a country completing the process of EU accession and then the processes integration in the European structures, the insurance of a sustained rate of economic growth represents a sine qua non condition for the achievement of the nominal and real convergence processes. The achievement of a sustainable economic growth is determined by the continuous increase of the Romanian economic competitiveness, by the implementation of the requirements of the Lisbon Strategy. It is known that at international level there are numerous papers and reports regarding the methodology of computing a country's competitiveness. In paragraph 4.1 a series of indicators used for the calculus of economic competitiveness are analyzed and also o series of classifications elaborated by various international organizations are presented. Unfortunately, most of

the international studies place the Romanian economic competitiveness level below the level of most ex-communist countries.

An indicator of maximum synthesis of economic competitiveness is the equilibrium real exchange rate – ERER – that is defined as the rate, which ensures both internal macroeconomic equilibrium and external equilibrium, respectively the equilibrium with the world economy. In paragraph 4.2 the main problems regarding the definition and calculus of equilibrium real exchange rate are presented and the fundamental factors that influence this indicator are analyzed.

Taking account of the symbiosis between the equilibrium real exchange rate and economic competitiveness, paragraph 4.3 contains the empirical results obtained from the implementation of econometric models on the Romanian equilibrium real exchange rate. Based on the models elaborated, the present paper presents the deviations of the effective exchange rate from the equilibrium level of exchange rate and in the same time analyses the effects of these deviations on the dynamic of the Romanian economic competitiveness.

The results obtained using the cointegration technique show that an increase in the differential between the productivity of the tradable goods sector in Romania and in the EU leads to appreciation of the equilibrium exchange rate and a growth in the variable which quantifies the development of the financial system or an increase in the net foreign assets of the banking system cause a long term depreciation of the equilibrium real exchange rate. In the period of 1997 to 2005 the euro-leu exchange rate was undervalued on average with 2.73% if we consider the actual deviations and with 2.66% if we consider the deviations obtained by using the trends of the fundamentals. Although the percentage deviations from the equilibrium level were relatively low, they still show an undervaluation of the domestic currency, which should usually indicate an increase in competitiveness, respectively an increase in exports and a decrease of imports and, thus, an improvement in the current account balance.

As a condition of joining the EU and the Euro zone, Romania has liberalized the capital account according to article 56 of the European Community Treaty, an article which forbids any restrictions of capital mobility between the member states or between the member states and other countries. April 2005 marked one the most important stage of the capital account liberalization, the access of non-residents to deposits denominated in Romanian lei. Contrary to pessimistic opinions of a few analysts, it is safe to say that this process was completed without powerful monetary or foreign exchange rate disturbances.

The authors of the present paper consider that the success of this important stage of the capital account liberalization is the result of the professional way it was prepared as well as the international standards proficiency of the NBR specialists. Actually, the preparation of the capital account liberalization strategy as well as the methods employed to apply this strategy prove the proficiency of the NBR macroeconomists.

The process of capital account liberalization together with the implementation of the general strategy regarding the EU accession and the integration in the European structures, are fundamental factors of economic competitiveness and vital conditions for European macroeconomic convergence.

Study no. 3: Public administration reform in the perspective of Romania's accession to the European Union

Public administration reform implies substantive changes of the major components of the public sector, both at central and at local level, but also of the public services generally. On the other side, democratic development requires a new relationship between citizens and the administration, an increased and strengthened role for public authorities and a redesigned partnership with civil society and local elected officials.

This research study aims at reviewing the impact of public administration reform measures in the context of European integration, and focusing on the processes of decentralization and civil service reform.

During July and August 2005, a statistical survey of the central and local public administration was undertaken in order to analyse the processes and behaviours of key stakeholders. The following representative samples were identified:

- Sample at the level of local communities mayors;
- Sample at the level of the national network of modernisers (technical groups for reform monitoring set up at ministry and county levels);

The first two samples were identified by a two stage sampling technique, and represented 9% of the total population researched. The estimated error at the level of the reference populations is 1.2% for the first sample and 1.8% for the second sample. The research reflected the perceptions of the reform process in public administration. Thus, half of the mayors have a negative opinion on the changes in local public administration.

There are significant differences of perception between the two main stakeholders of the local reform process, modernisers in prefectures and county councils and mayors of local communities. The perception of the representatives of the modernisers network is more positive compared to the mayors', considering that the former have been more actively involved in the implementation of reforms.

Also, the research studied the impact of introducing modern tools of public management in public administration:

- Multi-annual Modernisation Programmes (PMM)
- Common Assessment Framework (CAF).

The general opinion was favourable to applying the PMMs in public institutions, but significant difficulties in the implementation process under the current circumstances were identified. Based on the interview with the modernisers, the extension of the CAF

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implementation is very slow. Thus, almost three quarters of ministries, prefectures and county councils have not yet started the pilot implementation.

The representatives of local communities believe that the integration in the EU structures is a beneficial process for the short and medium term local development. More than 80% of mayors responded that EU integration will positively influence the development of their local community in the next five years, while 17.8% were sceptical.

Unfortunately, the optimism of the mayors about the accession process is not accompanied by the necessary capacity of local authorities and local companies to use structural funds. Moreover, local administrations are not interested in assessing the training level of local elected officials and companies on accessing and using these funds (15% of the interviewed mayors could not express an opinion on this topic).

Following the monitoring of the implementation of civil service legislation and civil servants in-service training, but also of the evolution of the civil service management and continuous training at European level, a number of problems were identified in Romania. These are both legal matters, and issues of mismanagement of the civil service.

The civil service has been a priority of PAR reform, but no reform strategy focused specifically on the civil service has been developed, to include all areas of this overarching issue. There has been a difficulty of recognising that the political decisions expressed in legislative documents can only be applied if a “professional, stable and politically neutral corps of civil servants” exists. This resulted in the lack of an integrated, coherent regulation of the human resource management in public administration.

Regarding staff recruitment, it is noticeable that relatively few sources of information for potential candidates are used, there is an obvious transparency problem, the publicity of vacancies is weak. One intermediary source of information on vacancies, the National Agency for Civil Servants has not yet been able to centralise and publish vacancies on its website, while the websites of various public institutions are used scarcely for providing proper publicity, as are partnerships with training institutions.

The civil service pay has not evolved due to budgetary restrictions of international requirements, and the restructuring of the civil service size has rarely been discussed and even less implemented. Few regulations covered the relationship between the number of employees and the objectives of each public institution. Unfortunately, it is clear that some civil service positions do not justify their existence.

Considering the limited financial resources, the absence of a structured network of training providers for public administration, the un-coordination of civil service training and career development and the lack of an external system for monitoring and evaluation of the training quality are the main constraints in making the civil service more effective.

The research tried to bring together the initiatives of the last few years regarding civil service ethics, but the results seem to be far from satisfactory because there was no systemic approach of the phenomenon, to cover:

- Political commitment – the will of the political power to support an ethical behaviour, including by power of example;

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- Legal framework – too general and unclear, flexible and subject to interpretations in areas such as public procurement, investment, etc.;
- Effective accountability mechanisms;
- Functional ethics codes – so far the ethics code has been ineffective and is mostly a control and constraint tool used by political leaders;
- Mechanisms for professional socialisation – the main theme in Romanian public institutions is the fear of personal initiative, of expressing opinions and debating because of the possible repercussions;
- Conditions to support public services performance, including a positive attitude of the citizens (their behaviour often encourages low level corruption) and support from the business environment.

In the current context of PAR, decentralisation and deconcentration, as part of the administrative decentralisation, are considered a priority, noting that the decentralisation is assimilated to devolution and delegation. In the same context, we must note that in Romania's case, devolution does not involve a possible territorial and administrative autonomy.

The research on decentralisation allows us to formulate the following conclusions:

- There is a favourable opinion towards the decentralisation process and the advantages it may generate;
- In some areas direct control mechanisms and discretionary decisions can still be found. This limits both the financial planning and forecast, and the possibility to introduce local innovative solutions for providing more effective services. Indirectly, this limits the absorption capacity for EU funding;
- Local financial management autonomy is limited by the regulations on allocation of own revenues, by restricting the use of transfers;
- The excessive use of fixed allocations is limiting the effective spending of money, because it prevents the coordination and integration of local services;
- Decentralisation has not had consistent effects so far;
- Insufficiently prepared and partially implemented public policies could not provide rational solutions for the existing issues;
- Not all administrative territorial units have been involved in the process, because of their insufficient administrative and managerial capacity.

Below are presented the main **conclusions and recommendations**:

In order for PAR to be successful, it is necessary that a large number of target groups (especially key people at the management and decision making levels) **support and commit to the need for changes and their implementation.**

An important aspect of public administration reform is **the management of reforms during their implementation.**

Public administration cannot be reformed in a few years. It is a long-term process, which probably can be implemented only by several consecutive governments in a difficult, highly competitive and rapidly changing external environment. For this reason, it is necessary to reach consensus on the following principles which will govern the whole reform process:

- **Widely disseminating information on the reform** and mobilising interest of citizens, professionals, political representatives and civil servants in making the reform happen and democratically exchanging opinions on its desirable and feasible course,
- **Basing the reform on solid professional analyses of the present state** and performance of public administration and on periodic evaluation of the consequences of completed reform steps,
- **Using experience with public administration reform in other countries**, particularly in EU member states and in the countries preparing for accession to the EU, while considering our own tradition and experience,
- **Adopting a comprehensive approach to the reform:** no isolated and partial changes should be implemented if not conceived as integral and organic parts of the total reform strategy and process,
- **Viewing the reform as an open process:** individual reform components will be continuously updated and adapted to the changes in the external environment of public administration and in other components of the reform, and will utilize experience acquired during implementation,
- **Determining strategic priorities:** a limited number of priority changes will have to be defined for every reform phase on which attention and funds will have to concentrate; these should be the changes that predetermine the overall progress of the reform and condition or influence all other changes,
- **Assuring continuity of the operation of public administration**, which must continue to function also in the course of reorganization, decentralization and other changes,
- **Managing and coordinating the whole reform from a single centre at the highest level of Government**, to ensure coherence of the strategy implementation

This research study could not have been undertaken without the support of central and local public authorities and of the network of modernisers at both administrative levels. We want to thank all those who helped up with their advice and suggestions which have been, to a large extent, considered and included in our study.

Study No. 4. Performance in the context of the Lisbon Agenda: success stories, institutional design

Initially thought to help Europe become “the most competitive knowledge-based economy” until 2010, the Lisbon Agenda underwent a revision in March 2005, only halfway to its deadline, which has shifted the focus to economic growth based on technological advance and labour force participation. Still, the activity of research - development – innovation remains the most well-known component of the Lisbon Agenda, and the its main key action, which bears attached the most prominent of all concrete targets of the Agenda, that is the commitment made by EU member states¹ to allot from public budget sources an amount equivalent to 1% of GDP to research and development, and to facilitate private spending for the same domain amounting to 2% of GDP.

One of the most debated ways to support research and development is institutional reform. The role played by institutions in the success of major European projects cannot be denied – the most recent example being the institutional construction needed, at both communitarian and national level, for the introduction and functioning of the single European currency.

Internal institutional infrastructure represents an important variable for integration in general and for the pressures of adjusting to the Europeanization process (Paraskevopoulos and Rees, 2002). Institutions matter, by means of all their functions – regulation, cognitive and normative – and at all governmental levels. Companies do not innovate in isolation, but within a system; the particularities of this system are essential to the innovation performance (Smits and Kuhlmann, 2004); the same authors consider that the role of systemic instruments in the innovation policy – including here institutional mechanisms – is growing. Institutional reform is important for managing the convergence to European policies and efficient governmental research and development structures are particularly needed for the convergence to the Lisbon Agenda targets (Stankiewicz, 2003). Furthermore, the recommendations of the Kok Report (2004) refer to institutional reforms, all of them at national level. The Sapir Report (2005) also underlines the need for well functioning institutions at national level.

This paper aims at analysing the performance of the EU-27 countries (the current 25 members, plus Romania and Bulgaria) in the context of the Lisbon Agenda, especially regarding the target set for public and private spending destined to research and development, while considering all matters from an institutional perspective. Thus, the following question arises: does the national institutional design for research and development activities matter in achieving the Lisbon Agenda targets, and if so, which are the lessons Romania can learn and apply in order to successfully implement the Lisbon Agenda?

¹ Commitment also made by Romania through the Accession Treaty.

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Our research has led to the result that, at mid-2005, the institutional framework for research and development in the EU-27 countries was as follows:

- 6 countries have had a national strategy for Lisbon;
- 24 countries have had a national strategy for research and development;
- 4 countries have had a distinct ministry for research-development-innovation;
- 21 countries have had National Councils for research and development with public stakeholders; 6 of these councils have also had private stakeholders; 1 country has had a National Council for research and development with private stakeholders only;
- 23 countries have had an inter-ministerial structure which coordinates the research and development activity; 10 of these are coordinated by the Prime Minister, and the remaining 13 by a line minister;
- All 27 countries have had consultative commissions for research and development; in 21 of these countries, the commission subordinated to a ministry; 12 of them also have independent commissions which function in parallel; 6 countries have had only independent consultative commissions;
- All 27 countries have public implementation agencies; 12 countries also have mixed or private agencies for the implementation of the research and development policy.

We used these institutional benchmarks as institutional explicative variables (all institutional variables were dummies, taking 1 or 0, depending on whether or not a certain institution existed), together with “hard” explicative variables. We selected those “hard” (statistical) variables for which we found support in other cross-country econometric studies, because the focus of our work was on testing the institutional variables. We tested two dependent variables: GERD (total expenditures on research and development, including public/government and private/business expenditures, as per cent of GDP) and BERD (business expenditures on research and development, as per cent of GDP).

The main results of the model tested can be summarized as follows:

- There is a positive correlation between the existence of a national strategy for research and development (different from the National Development Plan) and the total expenditures on research and development;
- The same is not valid as regards the existence of a national strategy for Lisbon or the existence of specific national targets for Lisbon. However, this could be explained both by the limited number of observations post-2002 (after the Barcelona Council, which actually set the European targets for the Lisbon Agenda), and by a path dependency effect;
- It is better (more effective) for an inter-governmental structure for Lisbon to be coordinated by a line ministry, rather than by the Prime Minister;

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- It is better for the consultative commission to be independent (involving NGOs), rather than subordinated to a ministry;
- It is better for the National Council for Research and Development to be independent, including business and academic representatives;
- Private institutions are more associated with higher research and development expenditures (both private and total expenditures);
- Venture capital funds are correlated with higher research and development expenditures.

Of course, these conclusions must be considered with caution, while keeping in mind that each country has its own characteristics, other than those of an institutional nature, which influence the efficiency of the institutional mechanism in general and the institutional framework for research and development in particular. Nevertheless, we proved with econometric means that there are a series of common institutional aspects which facilitate the increase in research and development spending.

We are not saying that the institutional framework in Romania is wrong or ineffective *ab initio*, yet we submit the idea that, at European level, over an 8 years period, an institutional model has emerged which better responds to the needs of the Lisbon Agenda.

Interpreting our results in the context of the current Romanian institutional design, we suggest that the following public policy actions regarding the institutional framework, the governance mechanism and the support measures might help increasing the research and development expenditures in Romania (both public and private):

- Designing a national strategy for research and development, other (more detailed, with clearer responsibilities and benchmarks) than the one included in the National Development Plan. This strategy should identify not only the targets, but also the means to reach those targets, and should be widely accepted by the business and academic representatives. The strategy should identify ways to allocate budgetary resources more effectively, and should be based on multi-annual budgetary programming.
- Eliminating the overlaps between the Ministry of Education and Research and the Ministry of Economy and Commerce.
- Setting up an independent National Council for Research and Development, which should include business and academic representatives. Its role would be that of supervising the activity of the R&D responsible public authority, monitoring the general research and development activity in Romania and publishing regular reports on the performance indicators mentioned in the national strategy.
- Setting up an independent consultative commission at the strategy level. Its role would be that of conciliating the strategic vision and the funds allocation.

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- It is essential that both the council and teh commission to finance their activity not only from public funds, but also from private contributions, so that they could secure their independence.
- Introducing a permanent ex-ante, on-going and ex-post evaluation mechanism for the projects financed from public funds, in order to improve the efficiency of public spending on R&D and to enhance the spreading-out effect.
- Setting up a large venture capital fund for R&D projects, initially supported 100% by the state, while having the goal to attract up to 50% private financing in the first 2-3 years. It is important that the initial capital provided by the state be large enough. This fund could bear most of the difference between the current public R&D expenditures representing 0.4% of GDP and the 1% of GDP level to which Romania has committed itself by 2007.
- Introducing indirect financial support measures for research, development and innovation, similar to those applied in EU countries, such as deduction of R&D spending from the tax base and fiscal credit for R&D investment reserves.

Study no. 5: Romania and the Republic of Moldova - between the European Neighborhood Policy and the prospect of EU enlargement

The European Neighborhood Policy (ENP) provides a favorable context to the foreign relations of the EU and meets the necessary potential to support the processes of economic development of the countries neighbouring the Union and to reinforce the regional stability and security. A subsequent enforcement of this policy will bring about the shaping of a pan-European and Mediterranean region, organized according to the concentric circles pattern.

Considering the multitude of covered domains – political, human and cultural, economic and of security – ENP settles a correlation with most of the policies of the Union – regional policy, justice and home affairs, education, culture and research, sustainable development, social and environment policies, foreign and security policy. Nevertheless, the ENP does not enable the neighbouring countries a structure of political cooperation enough attractive and powerful to make them accelerate the process of “Europeanization”. The impact of the ENP limitations can bring about the diminishing of the efficacy of the EU’s actions and even the overall reconsideration of its strategy.

The EU- Republic of Moldova Council Cooperation passed on 22 February 2005, the document substantiating in the form of an Action Plan the relations between Brussels and Chisinau, on short-term (up till 2008).

Out of the 3,147 km of Romania’s borderland, the sectors that are going to be the **future external border of the European Union** are totalizing around 2,050 km. The Ministry of Administration and of the Interior (MAI) has established as a priority objective the integrated management of border security for the future external border of EU. Romania’s gradual compliance with the standards of the EU regarding the borders started in 2001 and focused on the Strategy of the integrated management of the state border. The preparations to enforce the Schengen acquis and the management of the future external border of the EU must be harmonized and rendered more consistent.

The Republic of Moldova (RM) was characterized as “**a buffer state**” between Romania and Ukraine but, in fact, it is a buffer state between two major geopolitical projects: the Euro-Atlantic project (under the aegis of NATO and EU), and the Euro-Asian one (under the aegis of Russia).

Various conjugated external factors led to the recent pro-European orientation of the Republic of Moldova: the neighborhood of the Euro-Atlantic *limes*; its exclusion of the Common Economic Space; the revolutionary political changes in Georgia and Ukraine; and the imperative of diminishing its economic dependency towards the Russian Federation.

The perception of the European Union is expected to develop according to various factors, such as the success of the European construction, Romania’s EU accession and Ukraine’s firm option towards the same direction, notwithstanding the transformations in the Moldovan society or in the CIS space. On the medium term, Romania’s role as the

main advocate of Chisinau in relation to the EU might know a more conspicuous awareness.

Hindered by the burst of the conflict in Transnistria, **the security sector reform** (SSR) in the Republic of Moldova has become a precondition for solving the conflict. The priority is to ensure the civilian political control of the democratically-elected authorities, to circumscribe the cooperation between civilians and military people within the general area of the Moldovan democratic reforms, the reorganization and modernization of the security services and the employment in the ministries in charge of young experts giving a new western boost to the strategic thinking over the Prut. The authorities in Chisinau might focus on some objectives in the SSR area such as the consolidating the border guards or creating small units designed to participate in international operations, thus improving the image of the Moldovan state especially in Western chancelleries. The military aims should be correlated with the numerical and qualitative resizing of the diplomatic body of the Republic of Moldova, the *soft* arsenal being practically the only viable weapon that Chisinau might successfully use within the regional game of power. The Republic of Moldova could portray itself both as a promoter of peaceful solutions and as a security provider for sensitive topics on the Euro-Atlantic security agenda like frontier securitization and the fight against all forms of illegal trafficking.

The Transnistrian file gets a special attention within the Action Plan EU- Republic of Moldova, the innermost of the stipulations focusing upon Brussels need to continue the involvement in solving the conflict “respecting the sovereignty and territorial integrity of the Republic of Moldova within its internationally recognized borders, and guaranteeing respect for democracy, the rule of law and human rights”. The statement of this principle by the EU diplomacy it is very important especially when the federalization plans promoted by the official mediators Russia and OSCE seemed to be questioning the integrity of the Moldovan state. Also, it must be underlined the EU commitment to continue its efforts towards convincing Russia to withdraw its 14th Army from Transnistria.

The ENP and the ESDP provide new opportunities in solving the Transnistrian conflict. The EU mission to monitor the Moldova-Ukrainian border will be a first accomplishment of ENP’s security target in the region of the Black Sea. The securitization of the most vulnerable segment of the Moldovan-Ukrainian border might be completed by a future Petersberg mission, under the Berlin+ Agreement, which would have Transnistria as its first implementation ground in the former Soviet area.

Conclusions and recommendations

Several recommendations should be put forward in order to provide coherence to Romania’s strategy on the ENP, the Black Sea region and the Transnistrian conflict:

1. Continue to implement the good neighbourhood policy and the peaceful tools of conflict resolution.
2. Optimize the management of the future EU eastern border. In the area of immigration control and fight against all forms of illegal trafficking -one of the ENP objectives- it is recommended a better use of the logistics and field experience of the SECI Regional Centre for Combating Cross-border Crime

and of the International Centre for Police Cooperation. The procurement in the security field should be transparent and EU law compliant.

3. Produce a multidimensional strategy on Romania's relations with the Republic of Moldova and Ukraine. Such a strategy could include the support for Moldova's European integration with an emphasis on the economic dimension; the orientation of bilateral relations and multilateral cooperation in the regional structures to which all the three countries belong according to the priorities set forth in the Action Plans – transport, energy, justice and home affairs; the creation of structures and mechanisms for communication, information, consultation and institutional dialogue; the galvanization of cross-border cooperation especially at the level of the trilateral Romania-Republic of Moldova-Ukraine and of the Euro-regions; the diversification of cultural exchanges; and the development of people-to-people contacts.

4. In the relations with NATO allies and EU partners, to promote Romania as a stability factor and a security provider in the region. This aspect could include the know-how transfer from Romania and Bulgaria to the Republic of Moldova and Ukraine in the areas of democratization and security sector reform. A 2+2 format (two states of the future NATO-EU eastern border together with two ENP countries) of know-how transfer might position Romania as a necessary and efficient partner of the West in the region.

5. Use its dual status as NATO member and future EU member to facilitate the forging of a consensus on the international strategy for the Black Sea region.

6. Support diplomatically the goal of joining by the EU-US-NATO strategic triangle of the current pentagonal framework of negotiations on Transnistria.

7. Promote, through EU structures, initiatives for the implementation of a European pattern of resolution of the conflict in Transnistria, considering that the reinsertion of Romania in the mediation group is, for the moment at least, unfeasible. In this respect, Romania should manifest its availability to participate, after EU accession, to the EU monitoring mission of the Moldovan-Ukrainian border and also to a possible future EU Petersberg mission in Transnistria.

8. Pay a special attention to the Romanian citizens living on the both banks of river Dniestr; their rights and liberties should become a strategic priority for Bucharest.

9. Revive the Romanian cultural, spiritual and identity involvement in the Republic of Moldova through measures such as: to create a Romanian Cultural Institute in Chisinau; to reinstate the Governmental Fund for the relations with Moldova, which could be used, after consultations and agreement with Chisinau, to create a Moldovan-Romanian television in order to rebroadcast TV shows of the two national televisions and to produce shows on cultural or European integration topics; and to generate in the Republic of Moldova a robust cultural and informational space in Romanian language.

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10. Initiate the organization of a Forum for Security and Democracy in the Black Sea region to which the BSECO countries, the EU and the US should be invited to participate. The projects of this Forum could be financed by the incoming European Neighbourhood and Partnership Instrument.

11. Launch, after the EU accession, a EU Black Sea Dimension following the model instituted by Finland with its Northern Dimension.

Study No. 6: The agricultural sector in the perspective of Romania's accession to the European Union: implications upon the system of payments

The signing by Romania and Bulgaria of the Accession Treaty on April 25, 2005 represented a success and a European recognition of the great efforts that have been made in the latest years on the irreversible way to the European integration. Although the progress that has been made so far in order to comply with the accession criteria is quite significant, it can be stated that the most difficult part, i.e. the implementation of commitments and the functionality of institutional mechanisms, represent an important challenge in the period to come.

The quite late completion (2004) of negotiations in Chapter no.7 "Agriculture" largely due to the evolution and changes in CAP, cleared up/rectified certain requirements from the initial Position Document presented by Romania, *but it also left a certain discretion of the political decision in the case of certain mechanisms, such as: selection of the direct payment scheme, their potential topping up by Complementary National Direct Payments from the national budget, payment modalities, transfers between the budgetary allocations (possibilities of topping up direct payments from the budget allocated to rural development) as well as the defining of the eligibility criteria for providing the direct support.* The present study intends to investigate and substantiate the possible options referring to the application of the complementary direct payments from a budgetary and administrative perspective, the formulation of guidelines and the presentation of certain options that should provide an orientation framework for decision-makers in order to substantiate the decisions in relation to the implementation of the single area payment scheme and of the market intervention measures, the highlighting of the institutional needs in relation to the implementation as well as the analysis of the difficulties encountered in this process.

The study also intends to identify the possible sectors that would need support by the Common Market Organizations (interventions through export refunds and public and/or private stocking).

The study is structured on 6 chapters, the first one is dedicated to the methodological approach of the implementation of Single Area Payment Scheme and the „topping-up” possible to be allocated in Romania, the second chapter is focussed on the experience of the New Member States regarding this issue. In the third chapter are presented the possible options for granting the direct support (single area payment as well as the „topping up) as well as an evaluation of the future support based on the farm structure. In the fourth chapter are identified the sectors which could need support through market measures (public storage and export refinancing) and in the fifth chapter are presented the main issues and problems related to the operations of IACS. The last chapter is dedicated to the conclusions

Starting from the main objective of the study, namely the substantiation and evaluation of possible options of application of the complementary national direct payments from budgetary and administrative perspective, certain problems appeared as a result of the analysis; as a result of the analysis a few problems appeared in relation to:

(a) Land eligibility for support after the accession. Besides the already established general eligibility principle (a farmer/producer who uses an area larger than or equal to one hectare of land that should be divided into parcels of at least 0.3 ha each) there is another series of characteristics that confer this status in conformity with the EU regulations that should be cleared up as soon as possible, namely:

- *Defining the list of “good agricultural and environmental practices”. In this respect, the habilitated institutions should collaborate and define these criteria for Romania.*
- *Establishing the size of land areas unsuitable for agricultural activities and their most urgent identification (eroded land areas, affected by serious pollution, slope rubble land, land on dry riverbeds, land with alkaline soil are only a few examples of land areas unsuitable for farm production).*
- *Clear definition of terms: agricultural area, utilized agricultural area, non-utilized agricultural area, their contents mostly, and their reporting to the common system/nomenclature of definitions used by the monitoring agencies (Agency of Payments and Intervention, Integrated Administration and Control System)*
- *Redefining the term agricultural holding. It is necessary to clear up the eligibility from this point of view, too. The most illustrative example as a result of the analysis based upon the GAC data are the so-called “public administration units” from the category of legal entities that might be one of the main beneficiaries of single area payments. Although these represent only one tenth of the total number of eligible farms, they operate almost 22% of total utilized agricultural area. The characterization of this category on which reference is made for the first time in GAC as well as the clarification of the eligibility terms for direct payments on land areas operated by this category could be a difficult but necessary operation.*

Without knowing very clearly what is the contents of these indicators and terms, the action of identification of utilized agricultural area eligible for support as well as its monitoring after the accession will lack accuracy.

(b) Deviation of rural development funds to complementary direct payments. The strong polarization of agriculture in Romania will impact the direct support after the accession in two ways, namely: eliminating the subsistence and semi-subsistence farms (holdings) from the direct payments per ha (about 20% of the total estimated on GACV basis) and in the second place by focusing the possible direct support to be provided (through the single area payment and complementary payments) towards the larger farms (over 100 ha) in a percentage of over 50% of the possible amount of support to be provided. Under these conditions, the rural development funds should compensate in reality the non-

eligibility of a subsistence farm or the non-significant direct support that can be provided to a small-sized farm compared to that provided to larger-sized farms. Measures as the early retirement schemes accompanied by the introduction of certain schemes aiming at the support to young farmers for the development of farming activities, etc. would be in fact those that would focus on *the structural reorganization of agriculture, mainly of subsistence and semi-subsistence holdings. In the given context, the preparation of the implementation of measures under CAP Second Pillar is of an extreme importance, and it would represent the main support option for the non-eligible farms from the direct payment schemes and for those that would receive non-significant support.* Although it is appreciated that Romania would easily comply with the eligibility criteria for support through the rural development measures, considering the current stage of institutional capacity building, the personnel needs as well as the design of projects in the rural areas and the knowledge of this policy, we are quite reserved in forecasting a 100% uptake of rural development funds for the period 2007-2009.

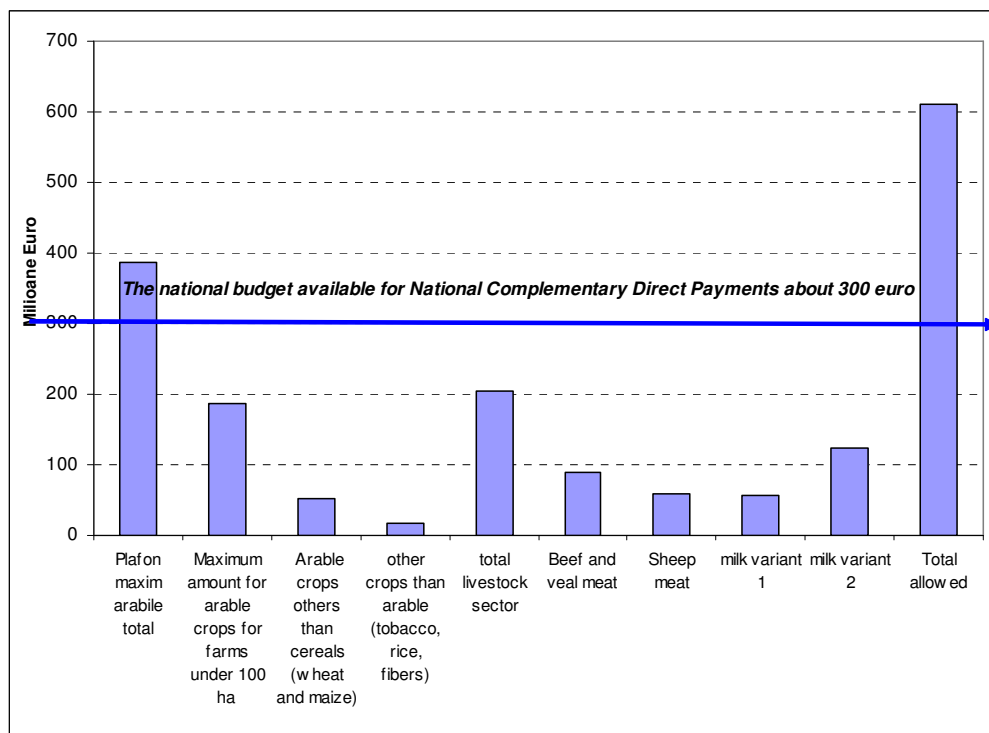
Maybe the decision to use the possibility of deviating the sums intended for rural development measures towards direct payments in the first two years after accession should be taken after a “cold analysis” of the preparation stage of the sector. If it were considered that the sector is not sufficiently prepared, then the utilization of funds intended for Romania would be facilitated through topping up direct payments at least in the first years after the accession, under the mention that these funds should not be distributed to large and very large farms.

(c) options regarding the allocation of complementary national payments

According to the evaluations presented in the present study, the possible maximum amounts to be provided to Romanian farmers through complementary direct payments are quite consistent), over 609 million Euro only in the year 2007 (see Figure below. The options of allocating this support should be based upon a maximum indicative framework (reducing the maximum admitted amounts to be allocated from the available budget) and providing equal amounts to all eligible farmers (this would be the simplest option from IACS standpoint) or it should be based upon the evaluations by sectors and the decisions be taken according to the available sums from the budget and the agricultural policy options. The figure below presents the maximum admitted amounts to be allocated in the year 2007.

Taking into consideration that from MAFRD estimations, the available national budget in the post-accession period for this type of support might amount to about 300 million, it can be stated that NCDP could be paid at 50% of the total permitted value; then MAFRD, depending on the agricultural policy objectives as well as on the complexity of their implementation through IACS, is to decide upon certain payment schemes. For example, the option could be a NCDP mix for the livestock sector (about 200 Euro in 2007) and the rest a uniform payment for crops or two-three payment schemes for crops with market integration potential (cereals excluded).

Maximum possible support to be provided through Complementary National Direct Payments in the year 2007 versus the available national budget



In order to manage the EU funds that it will receive after the accession, Romania should establish several institutions that should become fully functional by the moment Romania joins the EU. The Agency of Payments (API) and the Integrated Administration and Control System (IACS) are among these. IACS is a technical management and control instrument that is applied to certain payment schemes. IACS should be organized and implemented, with all the necessary logistics, until the end of 2006. *This institutional building represents a tremendous challenge and MAFRD has an extremely difficult task, impossible to accomplish in such a short period of time, namely:* building up the administrative network for SAPS implementation and the preparation of the uptake capacity of funds that will be released from the EU budget. The main challenges Romania has to face in this respect are the following:

- Set up of the Agricultural Parcel Identification System
- Training of staff that will serve these institutions
- The material resources necessary to a good operation
- Eligible farm information campaign

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The implementation of complementary national direct payments would raise particular problems to IACS in the case of the livestock module. It must not be forgotten that all the beneficiary animals should be registered. Currently most of them are registered on paper and not on the computerized database. At the same time the control procedures are quite difficult for the coupled payments. The high costs of the IACS building and the administrative complexity associated to coupled PNCD recommend the application of national support on a most simplified basis.

(d) *Identification of possible sectors that might need support through the Common Market Organizations* (interventions through export refunds and public and/or private stocking) represented another research objective. The main products for which export refunds could be provided would be maize and sunflower (the only products with a positive balance of foreign trade forecast.). At the same time, the wheat and maize stocks might represent a reference point for a possible support for stocking in case the price of cereals decline under the intervention price in the period 2007-2010.

The milk and dairy market forecast as well as the meat market forecast reveal that there might exist certain interventions, mostly probable in dairy products (butter maybe, depending on processing developments, beef and veal eventually).

Study no. 7: Elements of a Romanian strategy in the post-enlargement EU

This study attempts to outline the strategic perspective on next decade's expectations related to Romania's evolution in the process of European integration. The paper rests on the assumption that the EU embodies a future centre of governance which has already reached the level of a *complex organisation* in the sense the literature ascribes to complex situations, namely that where an "increasing number of independent variables are interacting in interdependent and unpredictable ways."

The European Union has evolved through gradual increases in the range of coordination and in the centralization of power, which bring into view unforeseen evolutions of economic policies, foreign and military initiatives, sharing of political power or intra-European conflicts. Against this evolving institutional background, the methodological issues of knowledge and interest representation suggest three levels of strategic focus. The first refers to the way decisions are divided between the EU and its Member countries. A second level of strategic focus is the subject of the EU policies radiating in several particular directions, which become distinctive as a result of their highly characteristic dual decisional procedure – national and supra-national – of considerable influence at the horizon of 2010-2015. Among the possible choices, this study considers the competitive development, the economic policy and the security and defence domains. Finally, the third level of strategic focus results from the implications pertaining to the integration mechanism of Romania. Interest representation and specific knowledge of the most influential policies set the stage to draw up a sketch of the first elements for a post-enlargement strategy.

Interest representation

This study emphasized the issue of organized influence on Community decisions and argued that the decisional landscape gets obscured by the ever more complex reality of representing interests. Romania is about to confront a significantly changed context as compared to that of the accession negotiations due to an ever more increased level of interdependencies among the member countries that demands a different strategic behaviour. This behaviour takes shape as evolutions unfold on three coordinates: the Community policy-making context; positioning on the defining matters of integration; and manifest aspirations relative to certain interest groups, both of countries, and of private representatives. Each level of interaction deals with distinct challenges.

The first element of a strategy should tackle the issue of preparedness to see the Union as a composite bloc of policies subject to particular sources of influence rather than an integrating monolithic bloc.

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The second element of a strategy should tackle the issue of the future European posture of Romania as defined by such themes as the political model of governance or the dichotomy between public and private priorities in an enlarged Europe.

The third element of a strategy should consist in taking advantage of the existence of a space of trust among several Member Countries in favour of Romania.

Competitive development

Certainly, Romania registered an improvement of the business environment, even if it did not result in a better ranking in the comparisons carried out in the field. The improvements must continue, and, to this end, a clear orientation of policies towards increasing competitiveness is a necessary recommendation. Taking into account the stage of the Romanian economy, but also the challenges of the future regarding the economic development paradigm, the following elements are useful for increasing competitiveness.

The fourth element of a strategy is the creation of the pre-condition for increasing competitiveness, which is, as revealed by the theory in the field, the experience of the developed countries, and also the reality's logic, the development and the modernisation of the infrastructure necessary for the investments.

The fifth element of a strategy consists in starting from what already exists in the economy and economic analyses, from the measurement of economic activities and using the base of system of indicators and proceeding to elaborating a cluster map and formulating some supporting measures for the emergence of clusters.

Economic policies

With respect to economic policies, the fact that Romania will be the member state with the lowest GDP per capita relative to the other EU states merely reinforces the need to adequately use of the financial support provided by the EU. At the same time, the strategy in the post accession period has to take into account the similar requirements as for the EMU members, the experience of strategies already adopted by the countries that are preparing to enter the EMU sooner than Romania, the specific economic conditions in Romania, and also the most well founded opinions regarding the appropriate measures for accession, when the right moment comes.

The sixth element of a strategy refers to the possibility of institutionalizing a set of best practices in the field of fiscal policy.

The seventh element of strategy implies that the Romanian Central Bank continues the anti-inflationary policy.

The eighth element of a strategy refers to the preparation for joining the euro-zone and to giving up the instruments of the national monetary policy, processes which should be accompanied by preparation of other policies capable to absorb these shocks.

Security and defence

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The Concept of European Security and Defence Policy (ESDP) has as its prime objective the development of an autonomous capacity of decision-making and, in case NATO as a whole is not engaged, the launching and coordination of military operations under EU authority in answer to crises; underlying the commitment of resources by member states in such operations are sovereign decisions. In this context it is important to emphasise that ESDP functions as an *intergovernmental process*, its political control being exercised by the heads of state and governments of member states and the financial control, by national Parliaments. The presentation in Thessalonica by the High Representative for the ESDP and WEU Secretary General Javier Solana, on June 20 2003, of the document entitled “A secure Europe in a better world” actually constituted the first draft of a strategic concept for the future expanded European Union.

The ninth element of a strategy consists by maintaining the complementarities between the two organizations in the relation NATO – EU.

The tenth element of a strategy is the new geopolitical environment which requires a proactive policy of Romania in the Black Sea area – a key area for the security of Europe, in promoting the new European Neighbourhood Policy, including the energy security of the European Union, in the prospect of the European integration of the Republic of Moldova and Ukraine and others.

The eleventh element of a strategy is the setting up of some national and regional structures of crisis management as well as for strategic analyses and actions.

Concluding remarks

This study does not attempt to put forth an exhaustive list; a future strategy may reasonably go beyond the eleventh element, as it may focus on just one or two of them, in a so much needed strategic vision. The importance of the list, as it is suggested by the analysis, does not reside in its coverage, but in its strategic focus on several critical evolutions affecting the future position of Romania in an enlarged Europe. Whatever element of the list takes shape along three defining coordinates for strategy formulation.

Firstly, the strategy is formulated on the *power* coordinate in the sense of promoting the national interests by means of and to the benefit of the European integration process. The European Union should not be regarded as an integrationist bloc, however much legal justification this perspective would find in the founding treaties. The act of membership is important as it turns the priorities of both the public (Presidency, Parliament, and the Government) and private (businesses and non-governmental organisations) bodies from a complex and seemingly confused whole toward several distinct paths according to the way policy formulation is primarily conceived in Bucharest or abroad, in Brussels, in the decision centres of the Euro groups or in the corporate offices.

Secondly, the strategic vision is outlined along the coordinate of a *technical participation* to the European construction through Community policies. Within the present context of policy formation, Romania is likely to dismember any demarcation line between the inter-governmental negotiations and its domestic actors and support thus the setting-up of several coordinating groups with a view to advancing a national position as to the proposals of Community law and the most appropriate way of decision implementation.

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In their turn, the representative groups should take up the responsible task of providing reasoned opinions as regards the expected impact of the adoption of Community legislation. They should appear as a trustworthy source for recruiting a professional body of experts to represent Romania during the technical debates at the European institutions in the post-enlargement period.

Finally, the third coordinate consists in *realistic policies* of placing the European evolutions in narrower – national and regional – or wider – global – contexts according to the interests relative to the economic development and security matters of the Romanian people. A realistic vision assumes the EU integration as the dominant process, but is not presumed to overlook the equally important fact that the evolutions of significant economic and political impact do not necessarily originate from the geographic vector spread between the Eastern and Western parts of Europe. The macroeconomic shocks are countered within rather small economic spaces that allow the entrepreneurial initiatives to be optimally effective, whereas the security threats follow paths built on distinct rationales as compared to the benefits of integration.

In sum, what appears with the force of evidence consists in the necessary projection of an *economic space favourable to adaptation and flexibility*. This study points out the solution in the adaptation capability and flexibility: labour market flexibility, including labour force mobility, which requires adequate changes in the educational system (for instance, lifelong learning), more diversity in the economy, not as opposite to specialization, but opposite to a low number of specializations.

These are just several examples at hand, which apparently relegate the EU membership to secondary importance. The strategic decision is based on the priority exploit of the membership for the very reason to enhance the capability, i.e. a larger pool of resources and increased negotiating power, of withstanding challenges that would have become effectual anyway. **Romania should outline its strategy development on the prerequisite that the EU alongside its various representations (economic, political, social, and political) constitute a resource base rather than an objective or a target of the post-enlargement period.**

Study no. 8: The required directions for EU's institutional development (deepening) related to its horizontal development (enlarging)

Arguments and limits for the development of EU institutions

There are two solid arguments for the development of EU institutional setting: the increase in the number of EU member states and the democratic deficit. Although the increase in the number of member states poses serious problems to the present EU institutional setting, there are proofs that the union can still function well based on the institutional status-quo excepting crises as the Iraq war when the working of EU will be for sure difficult.

The democratic deficit of EU, which is perceived as a distant, costly and interfering institution, entail institutional changes that have rather perverse effects. The direct implication of citizens may pose serious problems to completion of integration (recall pole results in France and Netherlands).

The construction of a European identity for European citizens – a fundamental condition of political integration – brings to the forefront the problem of cultural heterogeneity of Europe. The construction of a European identity based on the cultural component within the span of time given for the completion of integration is not a feasible objective.

Alternatives for EU institutional settings

A prediction on how the economic and social system of the EU will be like is also difficult because the economic and social systems prevailing in the main member states of the EU are heterogeneous enough and the choice of the EU social-economic system follows the rule: the national states tend to prefer the system that copies their own system.

The choice between intergovernmentalism and federalism is, also, not an easy one. The logic of intergovernmentalism is finally based on the differences in cultural values. Federalism is rejected as it generates a democratic deficit. Lacking these common values, the fundamental rule of democracy - decisions made by a majority and compulsory for the entire population - will not be operational because the minorities (consisting of whole nations, in this case) will not accept the decisions of the majority consisting of populations of other states. The type of federalism that can have somewhat dearer implications for the European integration is the “competitive federalism” because it goes against the EU's cultural homogeneity.

Methods of Governance

The analysis of prospects of governance methods may be done only having in view the provisions of Constitutional Treaty and the directions of evolution for the main common policies. In the difficult context created by the results of referenda in France and the Netherlands it is the European Parliament that tries to organize political debates and

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suggest directions of action for de-blocking the situation. From many possible directions or scenarios only the resuming of ratification process in the countries where a negative result of referendum was recorded is the most plausible one so far. Another plausible scenario is the renegotiation of constitutional text after a reflection period, which would involve a new Convention and a new IC, the new text representing only a short declaration upon some principles and regulations, which may be further completed by detailed agreements on problems of non-constitutional nature.

The Constitutional Treaty improves the legislative and institutional framework of Community method but also of enhanced cooperation. It strengthens the principles and instruments of governance methods, confers an increasing role to national parliaments and European Parliament, abolishes the three pillar system and consolidates the democratic rights of citizens by introducing the Charter of Fundamental Rights in part II.

The governance methods will be influenced by factors like EU enlargement, reform of some important common policies, relations with third countries, impact of global problems and dynamics of global governance. The extension of Community method at the expense of intergovernmental method would accentuate the risk of paralysis in an extended Union up to 30 members. That is why the field of foreign policy will continue to be under the incidence of intergovernmental method and also the OMC will be used in the future in order to insure a certain flexibility of European integration process and more efficiency of Community governance, and to alleviate the serious divergences persisting in certain fields (mainly between large Member States and small Member States). OMC has good prospects to be used in sensitive policy areas as taxation and labour market, where reaching unanimity may prove illusory.

The decentralization trend of some important common policies or transfer of some competences from Community level to national level does not absolutely involve the decrease of the importance of Community method but only the diminishing and simplification of Community regulations, enhancing the co-regulation and implementation role of national authorities, and increasing the co-financing funds of the Member States.

Competition Policy

A priori, for a country with an economic strength lower than that of numerous EU partners, a competition policy that is demanding, wide-encompassing and managed at a supranational level is to be preferred. It is thus useful to maintain the strictly supranational character of State aid policy. The trend towards replacing soft law instruments by explicit legal acts is also positive, because it reduces the margin of interpretation of the Commission in a field that cannot be completely insulated from political considerations.

Taxation Policy

Romania has no reason to be reticent vis-à-vis the replacement of the unanimity rule, because its interests in taxation matters are much closer to the median area, hence it is to expect that she will very often be in a position to find a blocking minority for avoiding

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the introduction of rules that she would not like. Assuming it would be possible to decide by qualified majority voting the harmonization of corporate income tax rates, it is to expect that this level will be close to 20%, very moderately binding for Romania. Of the solutions explored for the harmonization of tax bases for corporate income taxation, the Common Consolidated Tax Base is more appropriate for countries lacking very competent authorities and which are not the place of incorporation for many transnational companies with substantial foreign activities, such as Romania's case. The modalities of apportioning the common base are important, the interest being to agree on a distribution key that takes into account in a larger measure production factors that are relatively abundant in the country. The switch to the application of the „origin principle” for VAT collection presupposes the institution of a redistribution system, at community level, of VAT revenues. As long as Romania continues to record deficits in its trade balance with EU partners, and its fiscal administration will continue to be relatively inefficient, the choice of a “macro” compensation system, based mainly on production and consumption data, would be a priori more advantageous for her.

Common Commercial Policy

In many areas where Romania competes directly with third countries, her national interests would be better served if the degree of protection vis-à-vis third countries were higher, hence there is nothing to gain out of a decision process where the “blocking” capacity of Member States is limited. A strategic option with tactical implications is that of opposing the extension of the areas of exclusive Community competence in the common commercial policy. Extending the prerogatives of the European Parliament might be favourable to Romania, because of MEPs' special responsiveness to the requests of the NGOs to the effect of raising the environmental and social standards internationally. Romania could use such measures because, as a Member State, it would be bound anyway by demanding Community standards and if similar standards were to apply to other countries, a diversion of trade flows would likely occur to Romania's advantage. Finally, because the Council's decisions in trade policy matters are taken in the General Affairs Council, a transfer of domestic competencies in trade policy matters to the Ministry of Foreign Affairs would be very useful, since it would allow the overcoming of a co-ordination deficit that is more present in the Romanian public administration than in many EU Member States.

The institutional reform at the level of Monetary Union

The decisions regarding the enlargement of the euro area will depend on the interests of the old members. An important problem occurs due to the fact that the new members from Central and Eastern Europe will continue, in all likelihood, to have economic growth rates significantly higher than the old members. Consequently, the enlargement of the Eurosystem will complicate more and more the implementation of a common monetary policy. The same problem occurs also for the candidate states to the Monetary Union considering that it will be difficult for them to observe the convergence criteria in the circumstances of passing through significant structural reforms. The integration process, which entails the liberalization of prices and structural adjustments, will

inevitably result in inflationary pressures and increase of the budgetary deficits in the phase preceding the accession.

The institutional reform at the level of the EU budget

In the recent years and especially after the negative vote for the European Constitution, there has been reached the conclusion that the EU budget no longer reflects the current realities and the strategic objectives of the Union. Therefore a budgetary reform is necessary, but this will be extremely difficult as long as the decision in this respect is made as a result of intergovernmental negotiations inside the European Council, where the representatives of the member states are first and foremost concerned with national interest and, implicitly, with the net balance of their contribution to European budget. The EU cannot dispose of an adequate budget as long as the decision in this respect is not made by co-decision, between the Parliament and the Council, on the basis of a legally-binding proposal from the part of the Commission. The best solution is that the total volume of the contributions should be due to the Council, but the Parliament should decide their allocation per expense chapters. Another change that is necessary and does not entail alterations of the Treaty would be the synchronizing of the reference period of the Financial Perspectives with the legislature of the Parliament so as to strengthen the connection between those decisions regarding the budget and the results of the European elections. Romania will not be affected on short term by these institutional evolutions so the only alterations that may occur would be at the level of the amounts allocated in the post-accession period.

Study no. 9: An assessment of the recent economic, social, legislative and institutional outlook in EU new member states

The entry of the New Member States into the European Union on May 1, 2004, was simultaneously a historic process and – for most of these countries - the culmination of an economic transition that started with the fall of the old socialist system in 1989. And while the combined economic weight of the New Members might still seem relatively small compared to the EU-15, the dynamics of growth, commitment to internal reforms and desire to close the income gap with the rest of the EU is certainly providing a key impulse to future economic development in Europe.

This study contains two methodologically distinct sections, aimed at the assessment of the economic, social and legislative changes in new Member States in the two periods before and after the moment of accession. The first section uses the approach of a comparative analysis between Member States related to their pre-enlargement and post-enlargement objectives and the steps taken in order to reach these objectives. The second part is presenting some of the various macro-level policies implemented by NMS during the two above-mentioned periods, using the same comparative approach, and offers evidence of potential risk factors in the process of enlargement. The conclusions refer to the major short- and medium-term effects the accession had, has and will have on NMS (and on the EU as a whole, where data available). Several recommendations are made in the end of the study concerning the opportunity of absorbing best practice examples into the set of socio-economic policy measures that Romania will soon implement during its own accession process.

The study begins with the analysis of the pre- and post-accession comparative stance in NMS: the pre-accession conditions and constraints are shown in the first subsection, while the recent development following the moment of enlargement is tackled in the second section, which also makes an attempt of an extensive overview from three different angles: the economic side, the social dimension and the legislative-institutional framework.

In order to compare the pre-accession strategies various NMS adopted, the analyses are focused on three main issues: the initial factors (or the starting conditions); the negotiation strategies and the proposed set of integration policies; the own-country evaluations of its road towards to Euro zone.

The main results of the economic assessment are then plotted in a SWOT-type analysis at the level of the 8 NMS formerly transition countries, enforced by a similar analysis on case studies (Poland and Hungary). The conclusions that have resulted – at least during the intermediate stage of the study – are:

The enlargement of the EU with a number of ten New Member States did not produce any major disturbance in the functioning of the European Union's economy, in its former structure or at the level of each NMS economy apart.

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The imminent and – in some cases – *de facto* participation of the NMS to ERM II represented the most important factor in the macro-stabilisation of these economies, the strengthening of fiscal discipline and bringing inflation under control.

The labour market in the NMS did not witness major changes, demonstrating certain inertness to important variation of the other indicators in the economy and in the society, generally.

The enlargement of the EU stimulated the external trade both between the NMS themselves as well as between the NMS and EU-15. However, as a consequence of the impact of the Single Market, generating enhanced competition and high growth of demand in NMS, the imports of these countries have increased more rapidly than the exports in most of the cases, significantly worsening the trade deficit and, especially, the current account deficits.

The structural funds transferred from the EU to the NMS enabled the reinvigoration of investments, facilitating the modernisation and expansion of the infrastructure networks. Also, the qualitative development of the human capital was catalysed by an important part of these funds. For all that, these funds were not equally efficient allocated and used in all the Member States and the long-term effects may differ considerably according to the category of funds and its weight and according to the absorption capacity of the state managing the funds.

Although seen generally as being a barrier to the competitive functioning of a free market and despite they are not allowed within the EC Treaty, the state aid may be authorized to be granted under very special conditions, when inducing sustainable growth or when correcting intrinsic market failures or deficiencies. After the last enlargement round, the EU state aid policy aimed with priority at correcting those market distortions in areas such as innovation, knowledge economy or environment protection.

The social assessment is considering the specific treatment of social policies within the EU, which doesn't impose any model, but leaves the countries the independence of choosing their own social protection mechanisms. The only possible constraint that might have appeared during the negotiation process would be the requirement for coordination between social policies of NMS and EU-15, due to the necessity of ensuring by the end of the enlargement process the conditions for a free circulation of persons inside the EU.

Three main periods were identified in the evolution of the social protection mechanisms in the NMS (particularly in the case of former transition countries) before and during EU accession. The first one refers to the initial moment of transition, when the needed market reforms disrupted the old socialist-type systems and the sudden decline of financial resources brought almost all of the social system balances into negative positions (except Slovenia). The second period was the period of institutional restructuring, under many other financial constraints, which led to uncertainty in finding a good solution from the beginning and to mistakes in setting the social framework that proved to be difficult to correct afterwards. The third period coincides with the pre-accession period of high economic growth, and offered many countries (at least those that were not inheritors of the old Russian-type social protection system) the possibility of adopting new sets of social policies, many of them better designed for coping with the challenges of the EU integration process (some of them were based on best practice examples of current EU-15

Member States). The two main trends that were observed are on the one hand the gradual reduction in the role of the state in financing and governing the social security system and, on the other hand, the institutional separation of the budgets destined to various categories of social protection.

From the analysis of the main social indicators for NMS, at the moment of EU 2004 enlargement, the following conclusions are acknowledged:

EU membership does not impose a clear model for approaching the social policies, but leaves up to the Member State the option of choosing its own social protection mechanism.

In this respect, *the main trends* emergent from the mid '90, amplified and deepened, namely:

- *Slow withdrawal of the state from the management of social protection specific activities*: elimination of several types of subventions on basic goods and services, privatisation and market-isation of a part of health and social insurance services, incentives for the NGOs;

- *Institutional separation of the social security budgets*: social security budget is separated from the state budget, pension funds are separated from the health insurance budgets; the social protection policy is implemented by a number of independent bodies, while the power and responsibilities of the local administration institutions were extended.

The reforms implemented by the governments of NMS in the pre-accession period were meant to eliminate the state monopoly, stimulate an increase in the number of the services providers, decentralise the management of the system. These reforms have been implemented on the basis of a nominal and real growth of social protection expenditures, both in absolute and relative terms (as share in GDP).

There is a certain tendency of concentrating the social policies in the new member states towards the short-term objectives, particularly unemployment. Nevertheless, many of these countries spend more than their EU-15 counterparts for education, which is a warranty for future. On the other hand, health sector remains one of the most difficult issues to be solved in short, medium and long term.

Social transfers in the NMS tend to reduce the difference between the poverty levels within the group as well as between the NMS and the EU-15. In the same time the share of the population in poverty risk is lower, as well a statistical effect of low average revenues in these countries.

The legislative and institutional assessment starts by pointing out to a kind of paradox: although the accession means – with some well specified exceptions – that the *acquis communautaire* has been generally absorbed by the new member states, there is still a long road to run in order to implement all the measures and the technical aspects behind the legislation. Moreover, the process of legislative harmonisation doesn't stop at the very moment of enlargement, but is an on-going process of mutual transfer of knowledge and best practices.

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The study also mentions the two main principles that represent the basis for the EU's legislative approximation, namely direct effect – that allows the application of an EU law even though it does not have yet a legislative equivalent of the Member State – and the principle of EC law primacy, especially in the case of a legislative conflict. The main conclusions are presented below:

In the context of the debate on the experience of the new Member States in implementing the *acquis* it is necessary to draw a distinction between the transposition of the *acquis* into national law and its actual application – the latter task involving both the administration and the judiciary, the role of the national courts in this sense being essential.

The European Commission has the power to control and monitor the legal harmonisation process. It counts on at least eight distinct methods of control and monitoring, but the preferred method is that of the *Annual Reports on Monitoring the Application of Community Law*.

In 2005 the EU-25 registered an average annual deficit in the transposition of Internal market directives of 1,9 %, compared with 7,1 % in 2004. The new Member States performed in this direction better than the older Member States, although they had to absorb in a very short time the entire *acquis*. The new member States have relatively shorter delays in the transposition of the *acquis* than the older Member States.

The legislative and institutional evaluation also refers to the cases of sanction procedures that were started to NMS before accession and/or are currently undergoing, in relation to breaching of EU law/regulations/obligations by these countries. The results of the analysis offer the possibility of pointing out to the main areas of conflict or delay in transposition, based on the experience of the group of 10 member states that just joined the EU; these are environment protection, internal market, fiscal policies, budget and energy and transport. This may be utterly important information for Romanian policy makers during the process of prioritising their decisions and measures to be taken in the short and medium run.

On the role of national courts in the application of the *acquis*, we underline the essential support received in complying with this task from the ECJ, through the preliminary reference procedure.

The reforms undertaken in the new Member States with a view to consolidating the capacity of the judiciary system to apply the *acquis* multiplied in terms of means and coverage during the years preceding accession.

As far as the integration into the Euro area and the macro constraints are concerned the study analyses the outlook of the NMS economies at macro level, starting from the restrictions imposed by their future road towards euro zone and the way the main criteria in reaching the ERM II objectives have forged the macroeconomic policies in recent years, in a comparative manner.

The main macroeconomic conditions of stability are not reiterated from the first chapter, but a different approach is adopted during the evaluation process. We assess the achievement of NMS in reaching their stability targets by looking – in a dynamic way – to the evolution of the expectations (forecasts) on these indicators and by comparing the

predictions with the actual value. The main message is that the **new Member States finished 2004 and began 2005 with much better macro-economic performance than the previous expectations of the majority of analysts and political decision-makers.**

The results offer a powerful message concerning the post-integration effects on NMS economies. In the case of GDP growth, of fiscal deficit, of public debt and of long-term interest rate, the comparison of ex-ante estimations/forecast with the real achievements shows a positive-oriented correction mechanism which ended up in the reality surpassing any expectation. The new member states ended 2004 and started 2005 with much better macroeconomic results that was expected before the moment of enlargement or immediately afterwards. Consequently, one can say that the integration of NMS into the EU produced rather rapidly positive effects on the growth and on the fiscal discipline. On the contrary, the forecasts were optimistic in the case of inflation and unemployment, while in the case of foreign trade and foreign financial flows there is no clear finding in comparing the official results with the ex-ante estimations.

All the new EU Member States have expressed their will to enter the European exchange rate mechanism ERM II aimed at eventually integrating as fast as possible in the Eurozone. Six out of the ten states have already aligned to this mechanism – Estonia, Lithuania, Latvia, Slovenia, Cyprus and Malta – and hope to join the Eurozone by 2009-2010. The other four states, not accidentally the largest of the ten new Member States are facing certain troubles in complying with the requirements of joining the ERM and have consequently set later dates as compared to the other countries for aligning themselves to the required standards. In the cases of Hungary and the Czech Republic, supplementary delays have already been announced due to the malfunctions of the budgetary, fiscal, inflation management policies.

Despite several unaccomplishments of some Member States, such as the macro-economic over-heating that has induced short inflation pusee and has resulted into an average inflation of the area higher in 2004 than in 2003 or keeping relatively high budegtary deficits as compared to the GDP, the comparison between the real performance and the previous forecasts reveal lower inflation rates than it had previously been expected in all NMS (except for Poland and Latvia) and perctages of the consolidated budgetary deficit of the GDP that were lower than expected (except for Hungary and Slovenia). Added to the spectacular results in the field of economic growth, these performance has led to the overall decrease of the public debt of the NMS, which offers hope for a troublefree transition towards the Eurozone. The conclusion is that, regardless of the precise moment in which these states will join the Eurozone and regarless of the regulations that will govern the functioning of this monetary zone at that moment, the NMS are already experiencing and will keep on experiencing the benefits of increased transparency of their public budgets, of the process of targeting inflation or of tying their currency to the European one. The recent developments, starting 2005, proves that in some cases (Lithuania, Estonia, Slovenia) the countries could follow their own set of objectives to join the Eurozone when they decided to, while in other cases (The Czech Republic, Hungary) there are more and more indications of a possible postponement of the adoption of the Euro, due to fiscal and financial malfunctions prior and post 2004.

We will conclude this analysis by saying that, since 1st of May of 2004 the enlarged European Union had gained on some aspects and had lost on others. It indeed gained

economic, social, political and cultural power in absolute terms. It has strengthened its leading world trade partner position. It is undergoing an extraordinary project of building homogeneous and complex infrastructural and supra-structural networks covering the entire European continent and population (these include financial-banking network, communication and information networks, transport structures, etc.) However, it lost a little bit in average efficiency, average productivity, macro-stability, particularly in the short run. It has lost further flexibility of its labour market, which anyway was below the levels in other developed world economies. The authors of this study hope that all the above analysis succeeded to give the message that – despite threats – there are only a few areas of interest in which the enlargement may produce negative effects in the long-term perspective. Maybe we could think of the potential specialisation of intra-EU trade? Should we expect that the real estate financial bubble expand towards East? Will some of the current frictions between Member States become permanent leading to a decrease in the credibility of the pan-European dream? The majority of the signals following the accession of the ten NMS contain a positive message: 300 thousand new jobs expected to be created within the NMS economies in the following years; a rate of real and nominal convergence above expectations; an increased fiscal and budget discipline; one single currency in use in the near future, having big chances of becoming the leading world currency in the next decade; legislative harmonisation within the EU happening at a higher pace than before the enlargement; an enhanced security for the European citizen, who will enjoy higher mobility within the overall European Area. In the end, there will be higher chances that the European common social, cultural, political and economic system enters a sustainable growth path!