

Impact of EU Accession to Estonia's Development and the necessity to continue studies on the consequences of enlargement of EU

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Since 1995, when Estonia concluded the Europe Agreement, accession to the European Union has been one of the main goals for all Estonian governments and for the main political forces represented in the parliament. The accession agreement between Estonia and the European Union will fix mutual obligations and rights, as well as the scope of integration. In the accession agreement, additional obligations are assumed in order to adopt EU supranational and directly applicable legislation and to harmonise other institutions. The question regarding the relationship between obligations and freedoms will be reduced in the given situation – in the framework of negotiations with the European Union – to the application for transition periods and derogations, which would preserve for Estonia, in some fields, a greater freedom of decision and action than that foreseen by community legislation.

A good example of creating an optimal relationship between the adoption of EU legislation and independent decision-making is provided by the Irish example. Compared to others, Ireland's European model sets an example for Estonia, because Ireland is situated in the close proximity of a big country but still preserves its sovereignty, in the context of the modernisation of the economy and the development of national culture. The 70 percent economic growth in Ireland during the last decade is the highest in Europe, and the standard of living of the formerly poor agrarian country exceeds the western European average (including Great Britain) (Raig, 2000).

Estonia should also apply for long transition periods before full accession, in order to maintain its attractiveness for foreign investors and to preserve its business-friendly taxation system. The subsequent principle for economic policy might be that harmonisation is carried out to the extent that is minimally required, in order to attract into Estonia not only European, but also third country direct investments (primarily from the USA and Japan), but at the same time receiving EU support for agricultural, regional and social programs.

General impact of the European Union's eastwards enlargement

The impact of the eastwards enlargement of the EU on western countries consists primarily of the opening of markets. This will result in an economic boost and the redistribution of income in existing member countries. The opening of markets will bring about an increase in the effectiveness of direct investments in the east, and economic growth effects in the whole of Europe. In addition, EU enlargement will stimulate specialisation, with labour intensive production carried out more in the east and less in the western areas. This will free western labour force resources and employ them in more productive activities. As specialisation enables countries to focus their resources on what they can do best, relatively speaking, then the pan-European relocation of resources will raise the total production per inhabitant in the whole of Europe.

EU enlargement will profit the small countries more than the big ones. The smaller the country, the greater the relative benefit from integration, because the economic benefit largely depends on how integration broadens the opportunities of consumers and producers to organise their economies in more effective ways (Baldwin, Francois, Portes, 1997). There is a lack of capital in the eastern part of Europe, and a lack of technology. Consequently, integration with the west and the opening of markets will reduce the price of those goods produced with a high usage of capital and technology, but also increase the price of labour intensive products in the candidate countries of central Europe.

The EU structural funds will also provide opportunities for candidate countries. Structural funds are the means for providing major support to poorer member states and regions. The funds have clearly been oriented to promote greater economic and social coherence. Coherence is generally intended to mean bringing the average income levels (GDP per person) closer together. The budget for the Cohesion Fund, created by the Maastricht Agreement, has constantly grown, and the money has so far been used to fund projects in the four poorest EU countries – Greece, Ireland, Portugal and Spain.

More than 80% of the EU budget is spent on agricultural producers and poor regions. To identify the accession impact on budgets of candidate countries, the decisive factors are data on average incomes and the agricultural sector. Eastwards enlargement will increase EU foodstuff over-supply and will force the EU to reform the Common Agricultural Policy (CAP). Even if agricultural producers in the new member states receive fewer subsidies than the others, the export of the excess production will be a burden for EU agricultural policy, because the expenditures needed to maintain prices would increase. The unconditional adoption of the CAP would result in extensive financial transfers to farmers from the taxpayers in EU founding member states and from consumers in the new member states.

The cost of EU eastwards enlargement will primarily be paid by current member states. It would be logical if these costs were distributed more or less equally among all current member states. Unfortunately, this is not possible. Most probably the burden of eastwards enlargement will fall mainly on the shoulders of the poorer members and farmers. This claim is based on the logic that the enlargement requires an increase in the budget, but also a reduction of expenses, mainly in agriculture. This sector, however, is larger in poorer countries. Western European farmers and poorer countries have a major impact on EU decisions. Therefore, it cannot be excluded that a coalition of EU farmers and poorer countries could block eastwards enlargement through the non-ratification of accession treaties, until the candidate countries are significantly wealthier and less agricultural.

Preliminary study results on the impact of accession in Estonia and other candidate countries

The first timid steps are currently being made in analysing the impact on Estonia of European political integration (Veebel, 2000). The impact of economic integration has been more thoroughly studied in some economic sectors such as foreign trade (Varblane, 2000) and finance (Kuning, 2001), or regarding isolated problems, such as the impact – on passenger traffic in maritime navigation – of ending tax-free trade after accession (Rääk, 2001), the impact of a rise in sugar price after accession on the foodstuffs industry, etc.

EU support to Estonia, mainly as investments, may be as large as 4% of Estonia's GDP, i.e. initially up to 4 billion croons annually, presuming the Estonian GDP is 100 billion croons at the time of accession. But one should not forget that EU enlargement involves a big group of poorer countries, so the average level of GDP will drop, and Estonia may fall outside the support fund category more quickly.

Whereas the rapid convergence of economic development and the pace of growth may be considered as wholly positive, the rapid convergence of price levels, however, may result in aggravating social problems.

Accession to the EU will bring about the obligation to ensure free movement of capital and the opening up of real estate markets to EU member states, which means that land reform must be completed according to EU rules. As a result, within ten years there might be a situation where a significant part of Estonia's land, if not most of it, will be owned by foreigners or will be under their control (in contrast to the other candidate countries, Estonia has not even applied for a transition period or derogation in this matter), because the price of land and other real estate in Estonia is currently ten times lower than that in neighbouring Finland and Sweden, both EU member states.

It is very difficult to forecast what the free movement of workers will mean for Estonia, because during the accession negotiation many countries have raised the requirement of certain temporary limits. Unfortunately no one has analysed whether such limits will be damaging or, on the contrary, profitable for Estonia, taking into account our demographic and labour market situations. Whereas immigration has previously been considered a cheap solution for the labour force shortage, it is now becoming quite a big social problem and a source of conflict in EU member states (Vetik, 2000).

Estonia will be obliged, after accession to the EU, to establish common customs duties and quotas for such currently relatively cheap goods as metals, cereals, sugar, motor vehicles, cotton, etc., resulting in an increase in the cost of production materials and currently locally produced goods, and goods imported from so-called third countries (Russia, Ukraine, USA, Japan, China, India, Korea, etc.). It is the consumers who will lose the most because all goods will be more expensive, at least due to the customs duties (depending on the product, from 0.01 to many thousands of percent). But this will be a big drawback for Estonian producers and traders, because previous free trade agreements with several third countries, primarily Ukraine, will be terminated. Whereas in other candidate countries, customs duties will be reduced upon EU accession, resulting in some lower prices, in Estonia accession will generally bring about a rise in prices, because Estonia – in contrast to the others – has not protected its domestic market.

In addition, EU membership will result a rise of fuel and tobacco prices due to tax policy harmonisation, and it will abolish duty-free and tax-free trade in ships, airplanes and free trade zones. This in turn will occasion higher prices for both maritime and road transport, and if unfair competition conditions are maintained (Åland's permanent derogation in Finland's accession treaty regarding the preservation of duty-free and tax-free trade), then the Hansatee company and other maritime transport companies, as well as numerous companies providing tourist services, will face bankruptcy. The requirement to end VAT tax exemptions and tax reductions will also have an impact on publications, heating services and cultural institutions. There will no longer be reimbursements of VAT on re-exported products and services, because the EU market will become the domestic market.

Estonia's accession to the European Monetary Union requires, on the one hand, that Estonian prices be comparable to EU average prices. But rising to the EU average level of prices also presumes a growth in income of at least the same tempo. Price convergence would need a certain level of income convergence, but the state has no financial means to ensure this for the unemployed. Entering the EMU presumes in turn low inflation and stability of prices. Price and income convergence, and accession to the EMU, are intrinsically contradictory aims and therefore difficult to carry out.

If Estonia is not able, during the negotiations, to maintain Estonia's existing liberal trade policy and relatively low taxes, then low income families and weaker enterprises face even more difficulties in coping, and the flow of foreign tourists into Estonia will also diminish. A rapid rise in prices and taxes will hit pensioners and large families the hardest, because their income will still be attached only to the thin rope of Estonia's state budget – the EU supports social, educational and other expensive policies only to a minor degree.

The inevitable consequence of the obligatory implementation (hopefully with some alleviations) of the EU CAP will be mandatory support of farmers and a relatively sharp rise in foodstuff prices. It is not appropriate to compare prices of foodstuffs in Estonia with the big markets in Germany or another countries which have even better production conditions. Rather Finnish will influence our prices and Swedish ones, which are on average twice as high as average consumer prices elsewhere in the EU (Varblane, 2001)

In summary, the implementation of EU trade, agricultural and environment policy and other expensive policies in Estonia means that the Estonian labour force will also be more expensive and that the competitiveness of the entire economy will be reduced, with growth thereby slowing down. In order to reduce the negative impacts of EU membership, Estonia should apply for essential derogations and

transition periods regarding EU legislation, in order to increase the competitiveness of its economy and to avoid social tensions turning into serious conflicts.

On the necessity to continue studies the consequences of accession to the EU for Estonia

Keeping in mind the widening of the range and the deepening of the scope of European integration the future membership of Estonia in the EU has global and fundamental significance for this country: the nature of Estonian statehood and the trends of its economic development are going to be established for the centuries ahead and serve as a conclusive step of Estonian political developments for the last millennium.

At the same time the young Estonian statehood and its legislative activities do not have any tradition of meaningful analyses of its own course, of strategic political planning and of the multi-model approach to the socio-political phenomena. Keeping in mind the fundamentality of the European issues for the fate of Estonia this state of affairs becomes even more troublesome and this has been recognized as a problem.

As there are no really solid and complex neither politically neutral analyses of the possible consequences of Estonia's accession to the EU the twofold negative results are probable to occur: a) Estonian "stubbornness" in the negotiations in the areas that might provide flexible and multiple approaches; b) Estonia giving up its vital national interests in the areas of lesser importance to the EU (so called "loose-loose" situation).

As the political motivations of the initiation of the EU-talks (EU as an additional security guarantee for Estonia against Russia) have withered away the economic dimension of the accession has become dominant. And actually there are no answers to the most basic questions in these areas. Very often information that has been distributed on the behalf of EU has not been neither convincing nor accurate and the result has been the increasing euro-skepticism in Estonia.

The solid research is non-existent in most of the 30 chapters of the accession agenda. But realistically put: the lost time can't be made up immediately and not all of these 30 areas are of equal importance both for the EU and Estonia. Thus we prefer to prioritize in to our research the topics of the most crucial, critical and urgent importance. They are:

- Tariffs and NTBs, trade and commercial policies;
- Budget formation and tax policies;
- Agriculture and regional development;
- Social policies and employment issues;
- Immigration policies, free movement of people and the rights of ethnic minorities;
- Energy and environmental policies;
- Transportation and communication policies;
- Cultural, science and educational policies.

But even this list of priorities can't be considered valid until the special research in the form of expert opinioning has been carried out. That work has to be carried further to determine the specific problems in each of the abovementioned areas.

As a sample list of more specific topics for the studies we name just some of the important ones:

- EU membership and Estonian Constitution, the issues of implementation of EU laws;
- Administrative capacity of Estonian executive branch;
- Efficiency of the utilization of the aid granted to Estonia by the EU;
- The effects of the introduction of the tariffs between Estonia and the states outside the EU (the CIS included);
- The energy and fuel policy implications;
- The cost analyses and the risks of the environmental situation in Estonia;

The choice of the topics above was random but hopefully gives the idea of the nature of the areas requiring research.

The Experience of EU Accession Studies

The last new members of the EU – Austria, Sweden and Finland had a starting position for the accession that was principally different from today's accession. Better analogies for Estonia would be Portugal and Ireland. At the same time the Nordic countries that have economically different level of development in comparison with Estonia mediate the process of accession. But it is noteworthy that even the prosperous Nordic countries spent significant amount of time and funds to carry out the respective research.

For instance Sweden did spend more than 200 millions SEK to finance 6 independent programs to analyze the fundamental issues of Swedish accession to the EU. Irish government created the special institution – The National Economic and Social Council with the specific aim: to study the EU membership's influence upon the Irish economy. Accession countries should follow this example: the EU studies have to be carried out on constant basis, being funded by the government and with the participation of all interested parties.

The Proposal for Estonian Government

The Government of Estonia should through its Bureau of European Integration (BEI) and in cooperation with scientific institutions work out the complex set of a program to study the integration consequences of EU upon Estonia that should become a part of a wider program for the year 2004 of the steps taken by Estonia towards its accession to the EU. The leading role, the management of the funds and the coordination of this work should be carried out by BEI on the behalf of the Government of Estonia.

Our estimation of the total costs of these programs would be about 6 to 7 million EEK. For the comparison: much simpler case of the privatization of Estonian railways did cost Estonia 10 times more than this amount of money. And it did cost 180 thousand to have the consequences of elimination of duty-free shopping for one Estonian company studied by KPMG.

We believe, that accession maturity should not be measured by the speed of harmonisation or of closing chapters at negotiations, but according to the ability to implement EU legislation and policies in reality, and to defend national interests at the accession negotiations.

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