EU Enlargement and the Single Market:
Opportunities for Business

Europe is Changing

Just a decade ago, the prospect of the countries of Central and Eastern Europe acceding to the EU was a distant dream. Now the UK is leading the way in making it a reality.

Enlarging the EU is an historic opportunity, both for the EU and its new members. It will answer the challenge set a decade ago when the Iron Curtain came down – to extend the stability and prosperity currently enjoyed by EU Member states further across the continent, to the benefit of all.

Successful enlargement of the European Union will bind the applicant countries into Western European political and economic structures, enhancing peace, democracy, stability and prosperity. It will increase the EU's weight in world affairs and it will provide a spur to growth throughout an enlarged EU, through economies of scale, transfers of technology, spreading organisational skills and increasing access to expanding markets. Consumers will benefit through wider choice and the lower prices which come from greater competition; British businesses will have access to over 100 million new customers in an enlarged single market.

By working closely with the applicant countries and promoting a constructive debate within the EU, this government is working to make these outcomes possible. I want to be sure that British businesses are ready to seize the benefits. Competition from other member states for the commercial and other economic gains of enlargement will be intense. To be certain that your business secures the most from EU enlargement you need to be aware of the opportunities offered and how to exploit them.

This paper is designed to raise awareness of enlargement, to provide information and to act as a stimulus for action. It describes the enlargement process as a whole, particular single market related issues and the economic and political benefits of enlargement. I hope you find it valuable in increasing your awareness of business opportunities across the candidate countries.

I hope the paper will also encourage you to give us your views, comments and experiences on what EU enlargement means for business and what we need to do to ensure that British businesses succeed in the new markets. This is your opportunity to help shape the future of Europe. I hope you will seize it.

The Rt Hon Helen Liddell MP
Minister for Energy and Competitiveness in Europe

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Executive Summary

This paper explains the economic and political implications of enlargement and provides information about the markets of the candidate countries. It is designed to increase understanding of the process and awareness of the opportunities. It also aims to encourage dialogue between businesses, representative groups such as trade and consumer associations, and government.

The principal conclusions of this paper are that enlargement will:

- Bring down barriers to trade and business. UK companies will benefit from access to the largest single market for trade and investment in the world.
- Benefit UK consumers, giving them access to a wider range of goods and services at lower prices.
- Encourage GDP growth in both the candidate countries and the present EU 15.
- Require institutional changes within the EU itself.

It also concludes that:

- Some of the benefits of enlargement are flowing already. The candidate countries have been opening their markets and reforming and restructuring their economies in preparation for EU membership. In many cases this has led to strong economic growth.
- The success of enlargement depends upon candidates being properly prepared so that they enhance the single market. Effective implementation of single market rules is vital and will help the candidates compete in the EU.
- Extending the single market will not just increase the number and scope of opportunities; it will also simplify doing business, as candidates introduce EU legislation and practices. This aim is reflected in the EU position that any transition periods granted to the candidates on entry should be exceptional.
- EU-funded pre-accession programmes offer real commercial opportunities for UK firms.
- As their economies grow and their consumers become more prosperous, the candidate countries offer great opportunities for UK trade and investment (which the country pages cover in detail). Market liberalisation in areas such as telecoms and energy should also accelerate this process.

Responding to this paper

The government would like to hear your views on enlargement and your experiences of doing business in these markets. In responding you may wish to consider some of the following questions. Please also take the opportunity to comment on any other areas you feel are important.

The Single Market

- ***Do you have particular comments on any aspect of the enlargement of the single market?***
- ***How do you see your business with the applicant states developing? What will affect this?***
- ***What have been your experiences of the business environment in the applicant states?***
- ***Are there any changes you would like to see in candidate countries to facilitate your company's business there?***

Free Movement of Goods and Services

- ***Have you had difficulties with market access in the candidate countries? If so, what were they, and how could they be addressed?***

Free Movement of Persons

- ***How do you expect enlargement to affect the availability of skilled labour for your sector?***

Free Movement of Capital

- ***What do you feel will be the impact on your business of the wider free movement of capital?***
- ***Have your activities in the applicant states been hindered by restrictions on the free movement of capital (e.g. the inability to purchase land)? Do alternatives (such as land leasing) allow you to do business?***

Competition and State Aid Policy

- ***What has been your experience of the effects of State aids in the candidate states?***

Industrial and Intellectual Property Rights

- ***Do you have concerns about the protection of industrial and intellectual property rights in candidate countries? If so, what are they?***

The Environment

- ***Have you taken advantage of opportunities connected with the supply of environmental goods and services to the candidates?***
- ***Are there specific areas in the environment acquis (the EU's laws and practices) for which transitional periods might cause you concern?***

Energy

- ***What experience have you had of the liberalisation of energy markets in the candidate states?***

Employment & Social Policy

- ***Has your business in the applicant countries been affected by differences in social policy norms and practices?***

Consumer Protection

- ***What has been your experience of consumer protection in the candidate countries?***

Transport

- ***Have you experienced any difficulties with transport links between the UK and the candidate countries?***
- ***Where are improvements most needed?***
- ***Do you feel that there are particular elements of EU transport legislation that should be priorities for the applicant countries before accession? Which are they, and why?***

Responses can be sent (by letter or email, preferably by mid-November) to: Michael Porter, Bay 217, Kingsgate House, 66 Victoria Street, London SW1E 6SW.
Tel. 020 7215 4408

e-mail: michael.porter@dti.gov.uk

It would be helpful if your response could clearly state who you are, and where relevant, whom you represent. Should you wish part (or all) of your comments to be treated in confidence, you should make this clear. In the absence of such an instruction we will treat your response as open and may share it with others, including Parliament, and may publish it – on paper and on the internet. We will also store your email address so that we can let you know when we post relevant new information on our web-site. *EU Enlargement and the Single Market: Opportunities for Business* is also available from the DTI web-site at:

http: //www.dti.gov.uk

Alternatively, you can call our publications order line (0870 1502500) to order additional copies, quoting the code number URN 00/1099.

The Opportunity of Enlargement

The UK wants to welcome new members into the EU, including some of the new democracies of Central and Eastern Europe which emerged following the collapse of communism a decade ago. Enlargement will entrench democracy and respect for human rights in the new member states and continue a trend that began fifty years ago, by spreading stability and prosperity further across the continent.

We see a golden opportunity to create a truly comprehensive European Union, and one which finally consigns the cold war division of Europe to history. Enlargement will also help us to deal with some of the most difficult problems facing Europe today. For instance, it will help the fight against international crime by boosting co-operation between present and future member states on tackling organised crime and drug trafficking. It will also improve environmental standards across Europe.

There is also a very important commercial aspect to enlargement. The extension of the Single Market will present significant opportunities to British business and the wider economy. Independent research suggests that the accession of the seven largest Central European applicants could increase annual UK GDP by as much as £1.75 billion.

Enlargement will:

- Bring down barriers to trade and business. UK companies will benefit from access to the largest single market for trade and investment in the world, with around 500 million consumers.
- Increase the purchasing power of the new Member States and thus the demand for EU goods and services.
- Increase the international competitiveness of UK companies. They will benefit from cheaper inputs, a larger and more diverse labour market, additional opportunities for technology transfers and greater economies of scale.
- Benefit UK consumers. It will give them access to a wider range of goods and services at lower prices.
- In the longer term, act as a bridge, increasing economic engagement with states on Europe's southern and eastern boundaries.

Indeed, some of the benefits of enlargement are flowing already. This is because, in preparing for EU membership, the candidates have been opening up their markets and reforming and restructuring their economies. This has led to strong economic growth in many of these countries. Second, it is widely recognised that the accession of many of these countries is simply a matter of time. As a result, many EU businesses have been investing heavily in the region for a number of years and there has been a dramatic increase in the volume of trade between the applicant countries and the EU.

The Enlargement Process

Thirteen countries: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia, and Turkey are now candidates for EU membership. But, before they can join, they must meet a set of criteria laid down at the Copenhagen European Council in 1993 (these relate to standards of human rights, democracy and the establishment of a market economy) and be able to implement the EU's existing laws and practices (set out in 80,000 pages of the "acquis communautaire").

Accession negotiations with Poland, Hungary, the Czech Republic, Estonia, Slovenia and Cyprus (the Luxembourg Six) were opened in March 1998. Negotiations are now underway in virtually all areas of the acquis. At the Helsinki European Council in December 1999, six more countries (which were not considered ready in 1998) were invited to open accession negotiations. These six (Lithuania, Latvia, Bulgaria, Romania, Slovakia and Malta – the Helsinki Six) have now begun negotiations in areas of the acquis. Progress in negotiations depends on each applicant's ability to implement the acquis. This means that, in principle, a country which began negotiations in 2000 could catch up and overtake a country which began in 1998. The exact time of accession will depend upon the progress made by the applicants and is also a matter for the negotiations.

Turkey is in a different position. Turkey is a candidate for EU membership. But, unlike other applicants, Turkey does not meet the Copenhagen political criteria for membership. This is a prerequisite for opening negotiations. The EU will agree an Accession Partnership for Turkey in October/November 2000, which will set out priorities for action on meeting the membership criteria. The EU and Turkey are also beginning preparations for screening (the process of comparing Turkey's legislation with the acquis).

The negotiating process will lead to Accession Treaties, setting out the details of each country's accession. As with previous enlargements, most of the discussion is about the candidates' progress in adopting the acquis and about limited transition periods (allowing candidates more time to catch up) which may be needed in some areas before the acquis can be fully applied.

Trading relations between the EU and the majority of the candidates are currently governed by 'Europe Agreements'. These, inter alia, guarantee tariff-free trade in most industrial products and offer mechanisms for solving disputes. Trade with Cyprus and Malta is covered by Association Agreements. These provide for largely free trade in manufactured goods with Cyprus and in Maltese manufactured exports, with concessions on a range of EU-produced goods exported to Malta. Relations with Turkey are covered by a Customs Union that offers tariff-free trade in manufactured goods and dispute solving mechanisms.

EU membership will integrate the candidates more closely with the wider EU economy, removing remaining barriers and strengthening economic interaction. Enlargement will also accelerate the adoption by the candidate countries of the EU's economic reform agenda, encouraging them to adopt measures which will strengthen their markets (and thus that of the wider EU). With the UK in the forefront, the EU is moving away from a European economy based on regulation and towards creating the right business environment for enterprise, competition, innovation and employment. The EU's present economic reform agenda began with the UK Presidency's 'Cardiff Process', which secured agreement on the modernisation of EU product and capital markets. The Lisbon Summit in March 2000 further advanced reform, creating agreement on e-commerce and information technology; research and development; enterprise and small firms; liberalising markets and modernising the social model.

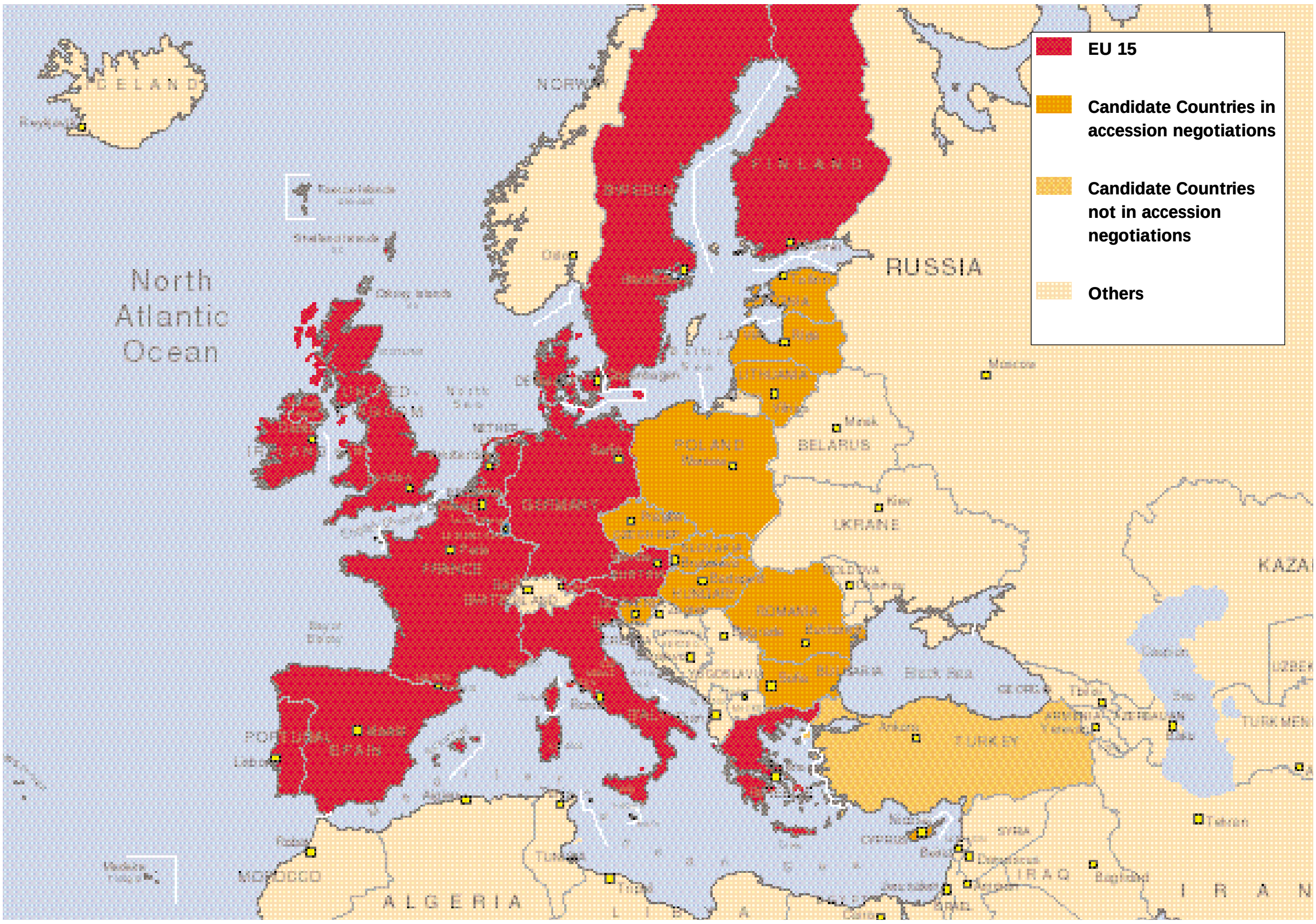
Enlargement will also require institutional changes within the EU itself. To this end, an Intergovernmental Conference (IGC) has been convened. The IGC will focus on reform of the European institutions and of decision making processes, to ensure the effective functioning of a wider Union. The EU is committed to concluding the IGC so that it is ready to receive new members from the end of 2002. A White Paper covering IGC issues in more depth was published in February 2000 and is available at

http://www.files.fco.gov.uk/eudi/igc.pdf

The Foreign Office homepage is

http://www.fco.gov.uk

The EU and the Applicant States



1998	Population (mn)	GDP (mn €, current prices)	GDP per capita (PPP†, percent of EU average)
Bulgaria	8.3	10,734	23
Cyprus	0.7	8,097	77
Czech Republic	10.3	50,446	60
Estonia	1.5	4,640	36
Hungary	10.1	42,479	49
Latvia	2.4	5,633	27
Lithuania	3.7	9,625	31
Malta	0.4	3,132	85 *
Poland	38.7	139,198	39
Romania	22.5	33,761	27
Slovakia	5.4	18,329	46
Slovenia	2.0	17,442	68
Turkey	63.5	175,800	32
AC^12	106	343,515	39 +
AC^13	169.5	519,315	36 +
EU-15	374.2	7,594,382	100 #

^ Applicant Countries
† Purchasing Power Parity
* Estimate
\+ Weighted by population
\# Greece was the poorest EU15 country in 1998, with GDP in PPP terms at 68% of the EU average

Source: October 1999 Commission reports and Eurostat (March 2000)

Understanding the Opportunities and Challenges of Enlargement

There is a broad consensus that enlargement will benefit the UK economy. Opportunities are already available as the candidate countries prepare for EU membership. New markets and sectors are open to UK firms, markets which are growing quickly and which should continue to do so as reforms and investment continue. The removal of barriers is leading to increased trade and investment, partnerships and employment.

To maximise the gains from enlargement each candidate will need to be well prepared. In relation to the single market they must complete a process of economic reform and industrial restructuring, supported by the transposition of EU legislation and the establishing of structures necessary to implement and enforce it. The investment and changes necessary to align the candidates with EU requirements may in some cases involve transition periods. The EU has made clear that such periods will not be granted lightly. Requests will be carefully and critically examined and must be subject to strict time limits^ – as the purpose of transition periods is to make extension of the single market as quick and as smooth as possible.

The Macro-Economic Impact

Enlargement should increase GDP in both the candidate countries and in the EU 15. UK gains are likely to be broadly in line with our share of EU GDP. In the candidate countries sustained GDP growth will gradually bring them toward the EU average and create new commercial opportunities.

Increased economic integration with the EU will give a substantial boost to candidate countries' economic performance. It will also lead to growth in export markets for producers in existing member states, while consumers will benefit from the increase in competition and choice. The candidate countries have already begun to benefit from investment, as barriers to trade with the EU 15 are removed and commercial and legal frameworks established to EU standards.

Candidates are also being encouraged to participate in the EU's economic reform agenda, most recently carried forward by the Lisbon European Council; aimed at developing the most dynamic, high employment, knowledge-based economy in the world.

The candidate countries will not join EMU immediately on accession, but they will be treated as 'member states with a derogation' until such time that they meet the necessary requirements.

Removal of Tariffs

EU accession and full participation in the single market will require the removal of any remaining tariffs and quotas between acceding countries and member states. Acceding countries will also adopt the EU's common external tariff. The present trading arrangements between the EU and the candidates already guarantee tariff-free trade in most industrial products, although there are significant exemptions in areas such as steel, coal and agricultural products. Tariff reduction can produce economic benefits through increased trade, the reduction of distortions in the economy, and less bureaucracy and form-filling. The candidates in Central Europe have also demonstrated their commitment to free trade by establishing the Central European Free Trade Association (CEFTA) which is already promoting greater trade amongst the candidate countries.

Foreign Direct Investment (FDI)

Enlargement will increase competition in Europe for internationally mobile investment projects. The UK should, however, remain well placed to compete. Although the candidates may have lower labour costs, this advantage is likely gradually to disappear. The UK also has the dual advantages of the English language and a particularly supportive business environment. Any investment in the candidate countries which raises their GDP will produce benefits across the EU, not least in providing new export opportunities.

^ EU literature describes transition periods as "Exceptional, limited in time and scope and accompanied by a plan with clearly defined stages for the application of the acquis. They must not involve amendments to the rules or policies of the Union, disrupt their proper functioning, or lead to significant distortions of competition".

The Single Market

The single market is based on acceptance of the four main 'freedoms': the free movement of goods, services, persons and capital. A single market also depends on the removal of barriers. Although most tariff barriers between the EU and the candidate countries have already been removed, joining the single market goes further than the present arrangements, requiring the candidates to remove non-tariff barriers to trade such as unjustified divergent product standards or extra licensing requirements. This process is already well advanced.

The removal of barriers to trade will have important economic effects. New firms should find it easier to enter markets previously dominated by domestic producers - opening opportunities for British firms to invest and trade more effectively in the candidate countries.

Central to the EU's approach to negotiations with the candidates is the determination that enlargement must enhance the single market, not detract from it or undermine it. This underlying philosophy is reflected in EU insistence that any transition periods are minimal, and that effective implementation is vital.

Do you have particular comments on any aspect of the enlargement of the single market?

How do you see your business with the applicant states developing? What will affect this?

What have been your experiences of the business environment in the applicant states?

Are there any changes you would like to see in candidate countries to facilitate your company's business there?

Free Movement of Goods and Services

There are several key elements to ensuring that goods and services move freely within a single market. Mutual recognition involves accepting products lawfully on sale in other member states. This includes the mutual recognition of national standards, certification and testing. It becomes simpler to export to the candidate countries as they harmonise their legislation with that of the EU. The candidate countries have also already started to adopt harmonised European standards and recognised accreditation systems for certification and testing bodies. This should help eliminate the difficulties sometimes faced by those trying to sell their products in these states. EU rules on public procurement mean that candidates must also abolish preferential treatment for domestic providers in works and supply contracts. Liberalisation of services such as energy and telecoms should provide new opportunities in previously inaccessible market sectors.

Have you had difficulties with market access in the candidate countries? If so, what were they, and how could they be addressed?

Free Movement of Persons

The free movement of persons consists of four main areas: free movement of workers; mutual recognition of qualifications; citizens rights; and member state co-ordination on social security systems. Implementing the economic aspects of the free movement of persons is important for the smooth functioning of the single market and will bring economic gain from enhanced labour market flexibility and more opportunities for UK companies and workers abroad. New member states will join the Schengen system (which encourages co-operation to allow the operation of minimal internal border controls for people) although they may not do so immediately on accession.

Research suggests that extending the free movement of workers will result in an increase in the number of highly-skilled workers moving to the UK. This freedom is being encouraged by EU measures such as directives on the mutual recognition of professional qualifications, which facilitate entry to regulated professions in any member state. Significant permanent migration into the current EU member states is unlikely, given the potential for economic growth in the candidate countries and the high "cultural costs" of migration – such as separation from family members and language barriers.

How do you expect enlargement to affect the availability of skilled labour for your sector?

Free Movement of Capital

Liberalisation of the capital market is a cornerstone of the EU single market. In addition to ensuring that candidates have modern and solid systems in place, enlargement will accelerate the removal of the remaining barriers to such movements.

Many applicant states currently impose restrictions on large-scale acquisition by foreigners of real estate (whether residential, commercial, industrial or agricultural). Enlargement will require the new member states to remove these restrictions. This will make it easier for UK business to invest in these countries. Whether these restrictions are removed immediately on accession is a matter for the negotiations.

What do you feel will be the impact on your business of the wider free movement of capital?

Have your activities in the applicant states been hindered by restrictions on the free movement of capital (e.g. the inability to purchase land)? Do alternatives (such as land leasing) allow you to do business?

Competition and State Aid Policy

Accession will require candidates to accept EU practices in the field of competition policy. This includes adopting EU anti-trust legislation and establishing appropriate competition authorities. As this is an area of particular importance for the single market, the DTI will pay particular attention to the resourcing and capabilities of the organisations established.

British companies should also benefit from the adoption of EU State aid legislation in the candidate countries. This legislation helps to ensure equal treatment for companies trading in Europe. Whilst there is no fixed definition of what constitutes a State aid, there is a very clear statement of principle that any form of aid – whether provided directly by the state or indirectly ‘through state resources’ – is incompatible with the single market if it distorts or threatens to distort competition within the Community. Aid can take a wide range of forms: e.g. grants to firms; training; loans and guarantees; and tax exemptions. Given the importance of this issue to a free and fair market economy, the DTI watches the implementation and transparency of state aid systems very closely. It is also developing links with the responsible offices being established in some of the candidate countries to assist in strengthening their administrative capacity and to share best practice.

What has been your experience of the effects of State aids in the candidate states?

Industrial & Intellectual Property Rights

Legislation in candidate countries on industrial and intellectual property rights is generally in line with international rules. Its effective application is an important part of the commercial legal framework. Patent protection is particularly important in industries with high R&D costs and long development cycles.

To minimise potential conflicts between national and Community Trademarks, an information mechanism already exists between the Office for the Harmonisation of the Internal Market (OHIM, a European Community Agency which registers Community Trademarks) and national trademark offices in the pre-accession framework. In cases of conflict with earlier national trademarks or “earlier rights”, action can be taken in a national court, but the European Court of Justice has jurisdiction to give preliminary rulings, with a view to the uniform application of Community rules and principles.

Do you have concerns about the protection of industrial and intellectual property rights in candidate countries? If so, what are they?

Environment

Adoption of high EU environmental standards by the candidates will have both environmental and economic benefits. Communism's heavy industrialisation produced significant environmental degradation, and encouraged a profligate attitude to power and energy, where prices were artificially low and usage wastefully high. Therefore, significant effort and investment will be required from many candidates to meet the environmental standards required by EU membership. But the benefits should be felt across the economy. The candidates are thus high growth markets for environmental goods and services, offering major opportunities to UK manufacturers and environmental industries. The candidates will also have to improve their capacity to apply and enforce the environmental acquis. In addition, as environmental standards are brought more into line with EU norms, any competitive advantage enjoyed by candidate country businesses through meeting lower standards will disappear.

However, the size of the investment needed makes it inevitable that environmental legislation will be an area in which applicant countries will seek transitional arrangements. Previous feedback to the DTI, and recent research by DETR suggests that the overall economic impact on the UK of transitional periods in many environmental directives would be minimal. But equally, a substantial gap in many environmental standards could not be tolerated for a long time after accession.

Have you taken advantage of opportunities connected with the supply of environmental goods and services to the candidates?

Are there specific areas in the environment acquis (EU's laws and practices) for which transitional periods might cause you concern?

Energy

The candidates will have to implement the relevant EU Directives on the liberalisation of energy markets, particularly the Electricity and Gas Directives. The more advanced of the candidates have already made significant progress in this area. In addition, they will have to maintain adequate oil stocks, increase energy efficiency and adopt EU policies on solid fuels (which will involve industrial restructuring to meet requirements on state subsidy, regional, social and environmental aspects).

Many Central and Eastern European countries have been used to artificially cheap energy. Because energy prices were heavily subsidised, use has often been inefficient, affecting both industrial competitiveness and the environment. New markets are opening for UK utilities firms to enter and for consultants to advise on privatisation, liberalisation and regulation. There will also be opportunities connected with the decommissioning of nuclear power plants in several candidate countries.

What experience have you had of the liberalisation of energy markets in the candidate states?

Employment and Social Policy

All new EU member states will be bound by the Employment Chapter of the Amsterdam Treaty. This provides for increased European co-operation on employment, flexible labour markets and promoting employability. Together the member states agree non-compulsory annual Employment Guidelines to co-ordinate policies to create jobs. Each country produces a national employment action plan stating how they will implement the Guidelines. Member states exchange best practice through peer review of the plans. The recent fall in EU unemployment suggests that the strategy may help promote growth and prosperity benefiting producers and consumers throughout the EU.

To help the leading candidate countries move towards accession, the UK is actively working with them on the further development and implementation of their employment and human resource development strategies so that they are more closely aligned to the standards of existing member states, and thus the Employment Guidelines.

EU social policy covers a wide range of issues. Among the most important are: the free movement of workers; health protection and safety at the workplace; measures to counter sexual discrimination (measures to counter racial discrimination are currently under discussion); and the Social Chapter, which includes instruments to promote parental leave and the rights of part-time workers.

The countries of Central and Eastern Europe often had very far-reaching social policies, linked to a great deal of regulation and state involvement in economic planning. Adapting an approach and social policy framework suited to a modern market economy involves considerable change and presents a significant challenge. Reforms are needed to address poor living standards, social exclusion, inefficient administration and outdated industrial relations.

The introduction of EU social policy in the candidate states will help ensure the smooth functioning of the single market – guaranteeing that all companies operate within a common EU social policy framework; and improving the position of people in the candidate states by offering them access to the measures enjoyed by citizens across the EU.

Has your business in the applicant countries been affected by differences in social policy norms and practices?

Consumer Protection

The effective and consistent enforcement of European consumer law is important in ensuring the safety of consumers and preventing unfair competition. Whilst the single market brings benefits to consumers in terms of lower prices and increased choice, these advantages would be undermined if consumers did not have confidence in the standard of products traded across borders and the opportunity for redress.

EU legislation in this area has focused on consumer health and safety, the protection of the consumer's economic interests (e.g. the avoidance of misleading advertising and appropriate safeguards for distance selling), and the right to information (with emphasis on packaging and labelling).

Just as Trade Associations play an important role in civil society by representing the interests of their members, so consumer organisations within member states are vital to the protection of consumer rights. Consumer movements in the candidate countries should grow in strength as their economies mature and their experience increases. The government supports this trend.

What has been your experience of consumer protection in the candidate countries?

Transport

Enlargement will bring significant benefits to the transport sector, stimulating the market through the elimination of border controls over a wider area and creating opportunities for UK firms in areas such as project finance and construction, and fleet management. Market opportunities in transport services will open up in the candidate countries through the application of liberalising directives. This is particularly true for aviation services, where the European Commission is seeking to bring the accession countries within the single European aviation market in advance of accession. Further opportunities may also be created in the rail and maritime sectors, as companies are privatised.

Enlargement will increase competition within the single market. Upgrading transport infrastructure in the accession countries (with financial assistance from the EU) will facilitate access to new markets in and beyond those states. Improvements in safety and environmental legislation required by the EU will continue up to and beyond accession. Transport regulation improvements will mean that accession country companies in competition with UK businesses that have previously benefited from a competitive advantage due to the non-application of these standards, will no longer do so. The extent to which the opportunities and obligations relating to the transport acquis are available immediately on accession will be a matter for the enlargement negotiations.

Have you experienced any difficulties with transport links between the UK and the candidate countries?

Where are improvements most needed?

Do you feel that there are particular elements of EU transport legislation that should be priorities for the applicant countries before accession? Which are they, and why?

Opportunities for UK Businesses to Participate in EU Programmes

Involvement in Pre-Accession Programmes

In addition to opportunities in the candidate country markets, there are possibilities for UK firms to become involved in EU-funded assistance programmes. The EU offers a range of support and assistance to the candidate countries, both through specific pre-accession programmes and by greater access to existing EU programmes. These EU initiatives have the potential to generate business opportunities for UK companies, which can become involved as contractors or advisors. The Development Business Team at Trade Partners UK offers practical advice on how to identify and pursue such opportunities.

Pre-Accession Instruments

Many of the candidate-specific programmes fall under the umbrella of 'Pre-Accession Instruments'. The main programmes are: PHARE; ISPA; and SAPARD. These instruments only apply to the ten applicants from Central and Eastern Europe.

PHARE is 'accession-driven', aimed at helping candidate countries fulfil the EU's membership criteria. It has an annual budget of €1577 million. It focuses on two main tasks: helping the candidate countries' administrations acquire the capacity to implement the EU acquis, and helping them bring their industries and basic infrastructure up to EU standards (particularly in areas where the rules are increasingly demanding: environment, transport, industrial plant, product quality, etc).

ISPA (Instrument for Structural Policies for Pre-Accession) funds investments in transport and environmental infrastructure. ISPA will contribute a maximum of 75% of project costs, and the normal ISPA contribution is expected to be 40-50%. National contributions will therefore also be necessary, although these can be provided in the form of loans by International Financial Institutions. The indicative allocation for ISPA is €1040 million p.a.

SAPARD (the Special Accession Programme for Agriculture and Rural Development) provides support for projects related to sustainable agriculture and rural development. It will help candidates meet the agricultural acquis as well as solving specific problems of transition for the agricultural sectors and rural areas. The indicative allocation for SAPARD is €520 million p.a.

Opening of European Community Programmes and Agencies

The candidate countries from Central and Eastern Europe and Cyprus now participate in Community programmes in areas such as education, vocational training, youth, culture, research, energy, the environment, and small and medium-sized enterprises. Maltese and Turkish participation is foreseen. In addition, the European Environment Agency and the Monitoring Centre for Drugs will be opened to the candidate countries.

The European Strategy for Turkey

The Helsinki European Council confirmed Turkey's status as a candidate for EU accession, but it is not yet negotiating to join the European Union. As with other candidates, Turkey will have to meet the political criteria set out by the Copenhagen European Council in 1993 before negotiations can begin.

Relations with the EU are developing according to the EU's 'European Strategy for Turkey'. This involves an enhanced political dialogue (with emphasis on progress towards fulfilling the political criteria for accession); Turkish participation in Community programmes and agencies; and the drawing up of an accession partnership containing priorities on which accession preparations should concentrate, combined with a national programme for the adoption of the acquis.

Turkey will receive approximately €180 million per year from the MEDA Programme (a combination of country specific and regional initiatives involving Mediterranean countries and aiming to support economic transition and strengthen the socio-economic balance) and from two European Strategy Regulations adopted in October 1998.

Contacts

The Trade Partners UK web-site provides a range of links to useful sites:

http://www.tradepartners.gov.uk/aidfundedbusiness

Gregor Lusty (Development Business Team)
tel. 020 7215 4449,

e-mail: gregor.lusty@tradepartners.gov.uk

The EU also offers the following web-sites

PHARE, ISPA, SAPARD:

http://www.europa.eu.int/comm/enlargement/index.htm

MEDA:

http://www.europmed.net/

Building on this Paper

As was explained in the introduction, this paper is designed to raise awareness about enlargement, to provide information and to act as a stimulus. We hope that you will have found the above material useful and will want to contribute your views and thoughts (through the contact mentioned in the Executive Summary).

The remainder of the paper has a more commercial aim – to raise awareness of the opportunities which are available to UK business. The following section consists of a country by country overview of the candidates' markets, as well as essential contacts who can provide further assistance and information. We hope you find it useful.

Candidate Country Markets

The following pages have been prepared with the help of Trade Partners UK, the Government network dedicated to building British business success overseas. Trade Partners UK provide a single point of access to a range of support in the UK and to our commercial and diplomatic teams in more than 200 countries.

This section offers a country by country overview of the candidates' markets, providing information on the macro-economic situation, opportunity sectors, privatisation, investment, and relevant contacts for more detailed enquiries. As is indicated in the table below, significant growth is expected across the region in 2000, at a rate higher than that of the EU.

	EST. % GDP GROWTH 2000	1998 GDP (€) per capita
Bulgaria	3.6	1,293
Cyprus	4.0	11,567
Czech Republic	1.8	4,898
Estonia	4.1	3,093
Hungary	5.2	4,206
Latvia	3.0	2,347
Lithuania	2.2	2,601
Malta	2.4	7,830
Poland	5.0	3,597
Romania	0.3	1,500
Slovakia	2.1	3,394
Slovenia	4.4	8,721
Turkey	4.5	2,769
AC*12	3.7	3,241
AC*13	4.0	3,064
EU-15	3.1	20,295

* Applicant Countries

Source: October 1999 Commission reports and Eurostat (March 2000); GDP growth: Eastern Europe Consensus forecasts, except Cyprus, Malta and EU-15 (Economist Intelligence Unit)

The Trade Partners UK Information Centre can be contacted on 020 7215 5444/5445 between 9am and 5.30pm Monday to Friday. The postal address is: Trade Partners UK Information Centre, Kingsgate House, 66-74 Victoria Street, London SW1E 6SW. The web-site is

http://www.tradepartners.gov.uk/

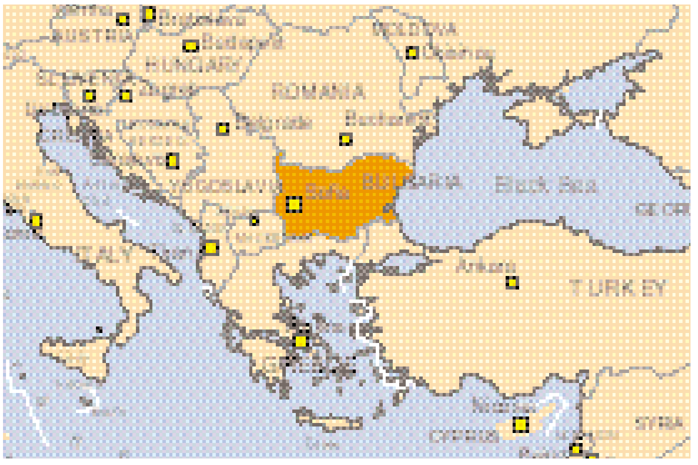
Further information on candidate country markets can also be obtained from the European Commission's Market Access Database at:

http://mkaccdb.eu.int

More detailed information on the candidate countries (political, economic and administrative) can be found in the European Commission's annual reports on each country's progress toward accession, available via the Commission's enlargement page:

http://www.europa.eu.int/comm/enlargement/index.htm

Candidate Country Market: Bulgaria



Macro-Economics

Bulgaria's macro-economic situation has improved markedly since 1997. The introduction of a currency board which tied the Lev to the DM has provided stability and resulted in average inflation of less than 1% in 1999. Following GDP growth of 3.5% in 1998, the economy is estimated to have grown by 2.5% in 1999, despite the Kosovo crisis. GDP per capita was €1,293 in 1998. Unemployment continues to rise, due to continued industrial restructuring, and stood at 18.1% (February 2000). 3.6% GDP growth is forecast for 2000.

Opportunity Sectors

Offering good investment and/or export opportunities: agriculture and food processing; energy, power projects and services; water and environmental; gas distribution; telecoms; transport infrastructure; construction; IT and electronics; tourism; and metals and minerals.

Privatisation

The Bulgarian government has employed Western advisers to help implement privatisation but is struggling to meet its targets. The Privatisation Agency handles the largest transactions; the respective ministries manage smaller scale privatisations of state-owned enterprises. The privatisation of municipal property is under the authority of municipalities and the voucher privatisation scheme is managed by the Centre for Mass Privatisation. Many of the larger enterprises have already been sold e.g., oil refineries, steelworks, cement works. Most banks have been privatised; nine foreign banks have set up branches in Bulgaria.

Investment

There have been two major recent successes for British companies making strategic investments in Bulgaria. International Water Ltd won a tender to operate water and wastewater services for Sofia. Regent Pacific Corporate Finance's purchase of Hebros Bank in conjunction with their acquisition in 1998 of the flagship Tsum department store established them as a major investor.

An Investment Promotion and Protection Agreement (IPPA) was signed in December 1995 and came into force in June 1997. Data from the Bulgarian Foreign Investment Agency indicates that foreign direct investment since 1992 has reached US$ 2,343m. The UK's share amounted to US$ 146m, fifth behind Germany (US$ 410m), Belgium (US$ 308m), Cyprus ($185m) and the USA (US$ 158m). Mining, metallurgy, electrical engineering, chemicals and cement, retail chains, financial services, tourism and hotels, transport equipment and telecoms equipment attracted the most foreign capital.

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Bulgarian Foreign Investment Agency (BFIA)

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Candidate Country Market: Cyprus*

Macro-Economics

The service sector produces 71% of Cyprus's GDP. The macro-economic environment is stable and GDP per capita in 1998 was €11,567. GDP growth averaged 4.5% during the years 1991-98, with inflation at 1.7% in 1999. Growth of 4.0% is forecast for 2000.

Opportunity Sectors

There are good export opportunities in all of the following sectors: food and drink; white goods; central heating; computer equipment and software; and water and sewage treatment.

Sectors which offer opportunities for investment are: IT; electronics; telecommunications; trading of consumer goods; food and food processing; transport; marinas and other leisure activities; financial services; energy; environmental products and services; healthcare services and products.

Liberalisation

Although there is no political consensus in favour of privatisation, EU negotiations have led to increased pressure to liberalise state owned companies and utilities. For example, there are plans to liberalise electricity generation and a regulatory body will be set up in 2000 to ensure that the rules of competition are satisfied through the liberalisation of these monopolies.

Furthermore, the Government is going ahead with plans to identify strategic investors, taking up to 30% in a new company to manage Paphos and Larnaca airports. Private Finance Initiatives (PFI) are being considered for some projects.

During the first week of January 2000, the Central Bank of Cyprus lifted restrictions on EU residents investing in Cypriot companies. This allows up to 100% ownership by EU nationals, the one exception being the banking sector, where foreign participation will be restricted to 50%. The liberalisation of the financial sector is proceeding slowly. The date for full liberalisation in the air transport sector is 1 January 2003.

Investment

Unilever, BAT, Biwater and Marks and Spencers are among the major British firms to have invested in Cyprus. As well as offering opportunities in the sectors listed above, Cyprus also offers low tax incentives to attract international companies to use the island as a base.

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Cyprus Chamber of Commerce and Industry
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Employers and Industrialists Federation
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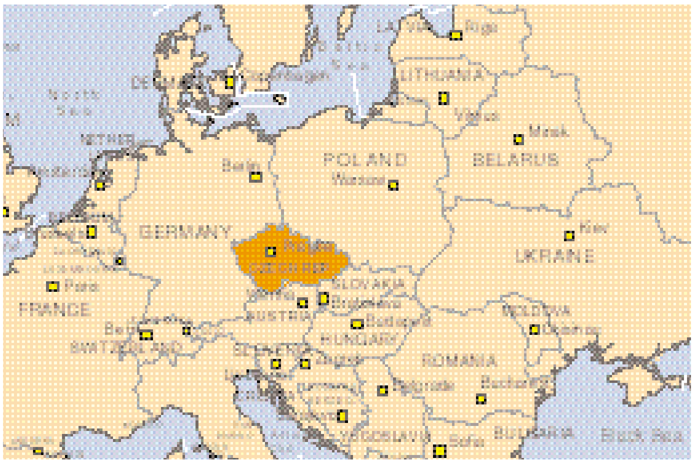
web-site: http://www.ocb-eif.org

*NB. The figures on this page refer only to the Southern part of the island. The Republic of Cyprus does not have de facto control of the Northern part of the island.

Candidate Country Market: Czech Republic

UK economic links with the Czech Republic are currently being encouraged by Trade Partners UK through an initiative entitled ‘Opportunity Czech Republic’. It is one of three key candidate country markets (along with Hungary and Poland) receiving this focus.



Macro-Economics

Already one of the richer Central and Eastern European countries, free-market reforms produced impressive growth in the Czech Republic in the mid-1990s. However, economic difficulties (linked to concerns that reform had not been comprehensive enough) began in 1997, leading to recession and fears about the growing trade deficit. The Czechs have now taken steps to advance the necessary reforms and GDP growth has begun to recover (the economy contracted by 2.2% in 1998 but returned to positive figures in the second half of 1999). A gradual and continued recovery is expected this year, with GDP growth of 1.8% forecast. GDP per head was €4,898 in 1998.

Opportunity Sectors

The following sectors have been identified as offering good export and/or investment opportunities: aerospace; automotive; clothing; footwear and fashion; consumer goods; retail and franchising; electronics; environmental products and services; food and food processing; telecommunications and IT.

Privatisation

A once fully nationalised economy has undergone a process of rapid privatisation complemented by restitution of assets to former individual owners. Privatisation is largely complete with approximately 80% of former state assets now in the private sector. The state retains a significant holding in a number of entities including certain strategic companies which are incorporated as state-owned enterprises. Energy privatisation is proceeding slowly.

Investment

Overall international investment in the Czech Republic since 1990 is around US$14.2 billion. US$4.8 billion was invested in 1999 and the prospects for 2000 look promising, partly due to bank and utility privatisation. The biggest investors are Germany, USA and Austria, though Britain led in 1998 largely due to a large-scale portfolio investment. The Czech Republic continues to provide good opportunities for British investors in a number of sectors. Leading British investors include National Power, Tesco, Unilever, Tarmac and Avon Automotive.

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Czech Government Agency for Foreign Investment (CzechInvest)

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Candidate Country Market: Estonia

Macro-Economics

Having regained independence from the Soviet Union less than ten years ago, Estonia's economic transformation has been remarkable. Average GDP growth between 1995 and 1998 was 5.9%. In 1999 GDP shrank by 1.4% as a result of the economic crisis in Russia. Whilst Estonia had the lowest trade and financial exposure to the Russian Federation among the Baltic States, the impact on agricultural and industrial output, and on bank asset quality, was substantial. However, the down-turn accelerated economic restructuring and the economy is set to grow 4.1% in 2000. Recently published statistics estimate that inflation stands at 8.2% and unemployment at 9.6%. GDP per capita in 1998 was €3,093.

Opportunity Sectors

The following sectors have been identified as offering export opportunities: clothing; food and drink; household goods and transport. The food processing, engineering, biotechnology, chemicals and textiles sectors offer investment opportunities.

Privatisation

At the beginning of January 2000 the Estonian government announced the details of what will probably be the last phase of its privatisation programme. With the privatisation of the energy sector and oil shale mining already underway, the 2000 programme includes the last large state-owned infrastructure assets: principally the railways, provincial airports, the state broadcasting centre and water. The government aims for the programme to be completed by the end of 2000. Estonia already has a larger private sector element in its economy than most Central European (and some Western European) countries. The 2000 programme continues the trend of moving into areas, such as railways, which few other countries have attempted to privatise.

Investment

By the end of 1998 a total of 24.3 billion kroons (US$ 1.6 billion) worth of foreign direct investment had been made in Estonia during the previous eight years. At the same time the UK was the sixth largest foreign direct investor with 3.7% of FDI. Major British investors in Estonia include Shell International in the petrol retailing sector, Glaxo-Wellcome and SmithKline Beecham.

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Estonian Investment Agency (EIA):

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Candidate Country Market: Hungary

UK economic links with Hungary are currently being encouraged by Trade Partners UK through an initiative entitled ‘Opportunity Hungary’. It is one of three key candidate country markets (along with the Czech Republic and Poland) receiving this focus.

Macro-Economics

Since the completion of the “Bokros Package” austerity programme in the mid 1990s, the Hungarians have successfully stabilised their economy. GDP growth since 1997 has been impressive, with growth in 1999 of 4.5%. GDP per capita in 1998 was €4,206. In 1998, UK/Hungarian bilateral trade exceeded £1 billion for the first time. 5.2% GDP growth is forecast for 2000.

Opportunity Sectors

The following sectors have been identified as export and/or investment opportunities: aerospace; agriculture; automotive; building and construction; clothing, footwear and fashion; chemicals; creative and media; electrical and mechanical engineering; energy, environmental products/services; financial services; food and drink; food processing and catering; healthcare (pharmaceuticals and medical equipment); horticulture and fisheries, information technology; telecommunications; transport (including infrastructure and services).

Privatisation

Privatisation started in the early 1990s. The private sector now accounts for 85% of GDP. Remaining privatisations include the stock market flotation of remaining power and telecom utilities along with Malev (the state airline) and Mohad (the state shipping company). UK experience in privatisation, industrial re-training and the stimulation of small business is particularly relevant to Hungary’s economic restructuring. Privatisation in Hungary has resulted in significant investment opportunities for major UK companies and good consultancy business.

Investment

Hungary has been successful in attracting in excess of $20 billion of foreign direct investment, (about 40% of all FDI in Central Europe) since 1990. Significant investments have been made in telecoms, electricity, heating, gas and water supply, food manufacturing, light engineering industry, and the financial and banking sectors. Major foreign investments have come from Germany, USA, Austria, France and the Netherlands – including companies such as General Electric, General Motors, VW/Audi, IBM, Philips, Nokia, Deutsche Telekom and Electrolux. Principal British investments include PowerGen, Tesco, BAT, British Telecom, Shell,Bernard Matthews, United Biscuits, Unilever, CP Holdings and Vodafone. Foreign-owned companies account for 78% of the country’s industrial exports and provide jobs for more than 20% of the Hungarian workforce.

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Hungarian Investment Agency (ITD)

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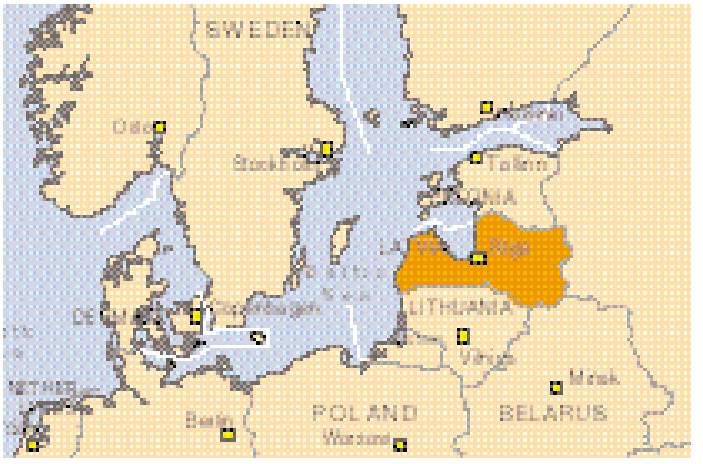
Candidate Country Market: Latvia

Macro-Economics

Before the beginning of the economic crisis in Russia, GDP growth in Latvia had reached a record level of 8.6% (1997). Although Latvia weathered the Russian crisis well, significant trade and financial links with the region meant that growth slowed to 3.9% in 1998 and to 0.1-0.5% in 1999. 3.0 % growth is predicted for 2000. Inflation remains stable at around 3.5%. GDP per capita in 1998 was €2,347.



Opportunity Sectors

Building, engineering, environment and transport have been identified as offering good export opportunities.

Privatisation

Most former state owned enterprises are now in private hands and account for more than 65% of GDP and over two thirds of all jobs. However, the government has been criticised for its failure to push through remaining privatisations, including parts of the telecommunications network and shipping. Plans to privatise the largest state company (which has the monopoly for electricity supply) were shelved in August 2000, following the expression (in a collection of signatures) of strong popular opposition to the proposals for sell-off.

Investment

Cumulative Foreign Direct Investment (FDI) in Latvia 1992-1998 reached US$1.1 billion. In 1999 in terms of FDI the UK was in joint fifth place (with Russia at 7%), behind Denmark (14%), the US (10%) and Germany and Sweden (8%). By sector, finance, transport and communications have attracted over 50% of cumulative FDI. Major British investors include Shell International in the petrol retailing sector and the Scottish-based firm BSW Timber, who have recently built a large and modern timber mill on the outskirts of Riga.

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Latvian Development Agency

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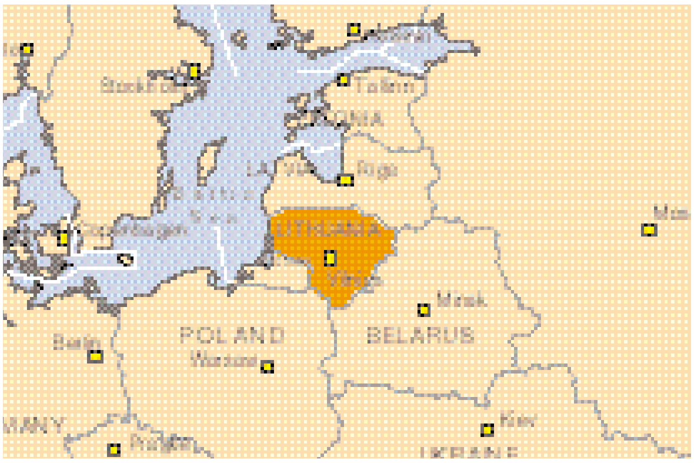
Candidate Country Market: Lithuania



Macro-Economics

Although Lithuania had enjoyed GDP growth averaging 5.1% over the four years before the economic crisis in Russia began, by the end of the third quarter of 1999 GDP had already declined by 4.9%. As a result of Lithuania's substantial trade links with that region, total export and import volumes fell during 1999, in spite of sustained trade flows (including a slight increase in exports) to and from Western markets. GDP growth of 2.2% is predicted for 2000. Inflation at the end of 1999 was estimated to have been 0.2% (although this is expected to rise to 2.2% in 2000 when petrol prices and energy costs are set to rise by almost 10%). 1998 GDP per capita was €2,601.

Opportunity Sectors

Agriculture and fisheries, food, IT and textiles offer export opportunities. Opportunity sectors for investment are: agriculture and food; electronics and textiles.

Privatisation

Lithuania's privatisation programme began in 1991. The process was accelerated in 1992 with the privatisation of large and medium-sized enterprises and investment stock companies. 86% of eligible companies were privatised during the first stages, with 81% of company capital passing into private hands. 90% of housing and 75% of arable land is now in the private sector, and the second stage of privatisation is currently underway. Energy sector restructuring and privatisation are under preparation.

Investment

By the end of 1998 cumulative FDI stood at US$1.8 billion (US$582 million of this was made in 1998 alone). At the same time the UK was the fourth largest foreign investor with 7.9% or US$88.7 million worth of cumulative FDI, behind the USA (26.3%), Sweden (12.5%) and Germany (11%). The largest British investor is Shell International (as it is across the whole of the Baltic States) in the petrol retailing sector.

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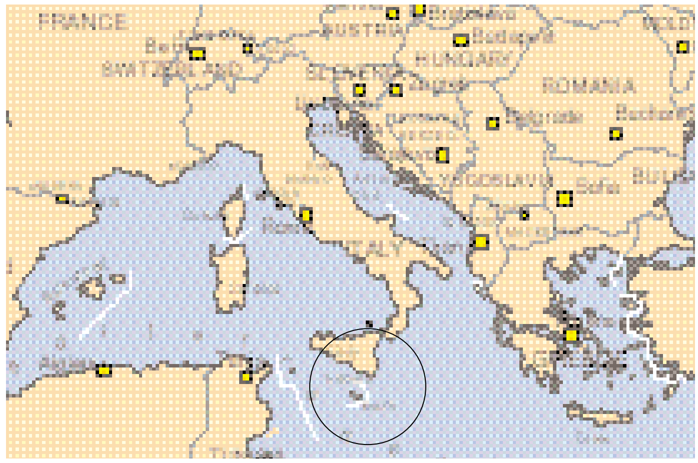
Lithuanian Development Agency

web-site: http://www.lda.lt

Candidate Country Market: Malta

Macro-Economics

Malta is a small market which has traditionally conducted much of its trade with the UK. Apart from shipbuilding and repair, the majority of Malta's manufacturing industries produce light consumer goods, textiles and toys, although the island's major export is high technology electronic components. Tourism contributes significantly to the economy. GDP growth in 2000 is predicted to be 2.4%. GDP per capita in 1998 was €7,830.



Opportunity Sectors

Malta purchases more British goods per capita than any other country except the Republic of Ireland. At £194 million in 1998 Malta was the UK's 58th largest export market. Main UK exports include: electrical machinery; apparatus and appliances; miscellaneous manufactured articles; road vehicles; office machines and automatic data processing machines.

Privatisation

The Maltese government has embarked on a policy of privatisation. Candidates include Malta International Airport, Malta Freeport Terminal, Public Lotto Department and Bank of Valletta.

Investment

Over 50 Maltese based manufacturing companies have significant British equity participation. These include De La Rue Currency and Security Print Limited, Dowty 'O' Rings Limited, Central Cigarette Company Limited (BAT/Rothmans), Andrews Feeds, Falks Veritas, Dedicated Micros, and Vodafone.

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Candidate Country Market: Poland

UK economic links with Poland are currently being encouraged by Trade Partners UK through an initiative entitled ‘Opportunity Poland’. It is one of three key candidate country markets (along with the Czech Republic and Hungary) receiving this focus.

Macro-Economics

Poland has been one of the most successful transition economies over the last decade thanks to consistently sound economic policies. Since 1994 annual GDP growth rates have been over 4.5% and despite a blip after the 1998 Russian crisis and an inevitable slow down in the economy, GDP in 1999 grew by 4.1% (GDP growth of 5.0% is predicted for 2000). Provided current macro-economic policy is pursued, such growth should continue. The average annual inflation rate was 7.3% in 1999. Per capita GDP in 1998 was €3,597.

Opportunity Sectors

The following sectors have been identified as offering good investment and/or export opportunities: automotive components; IT and electronics; telecoms; energy; environmental products and services; food and food processing; financial services; transport and distribution, the security sector and leisure and lifestyle.

Privatisation

Privatisation has steadily moved forward with most Polish banks and insurance institutions already privatised. Polish Airlines (LOT) have been partially privatised. In 1999 privatisation of the Polish power sector started and is expected to be completed by 2002. Forthcoming opportunities include the water, railways, steel, copper mining, coal mines and the postal service.

Investment

Not least because of the size of its domestic market foreign investors continue to regard Poland as an attractive location. The Polish Agency for Foreign Investment (PAIZ) indicates that over the period 1990-1999 FDI reached almost US$39 billion. At the end of 1999 British investors were in sixth place (with about US$2 billion) after Germany, USA, France, the Netherlands and Italy. The sectors which attracted the most foreign capital were financial services, manufacturing, and trade and repairs. Leading British investors include BP, Pilkington Glass, Cadbury Schweppes, Tesco, Glaxo Wellcome, Shell. BOC and Unilever.

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Polish Agency For Foreign Investment (PAIZ)

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Candidate Country Market: Romania

Macro-Economics

The coalition of centre-right parties elected in November 1996 inherited an economy that had barely begun transition and was in a poor macro-economic position. Romania's macro-economy has suffered from several years of political and economic instability and a lack of structural reform. However, some of the macro-economic indicators are starting to improve as Romania approaches the 2000 elections. 1999 figures show GDP contraction of about 3.2%, giving a total decline of around 30% since 1989; inflation for 1999 was 54.8%; and unemployment remained high at around 11.5%. Forecasts for the year 2000 vary from stagnation to slight recovery – Eastern Europe Consensus forecasts 0.3% growth; EBRD estimate 0.5% growth, average inflation of 35% and a budget deficit of 3%. Depreciation of the Romanian Leu slowed imports, restoring some equilibrium to the balance of trade by the end of 1999. 1998 per capita GDP was €1,500.

Opportunity Sectors

The following sectors have been identified as offering good investment and/or export opportunities: automotive and automotive components; environment; financial services; energy and power projects and services; engineering; IT and electronics; telecommunications; textiles, clothing and fashion; oil, gas and petrochemicals; agriculture; and tourism.

Privatisation

Privatisation and restructuring present opportunities for foreign investors. Following the election of a new reforming government, it was hoped that progress in these areas would be accelerated. Although the number of privatisations is growing, most have been small enterprises. Slow progress is being made on privatising banks and restructuring the largest concerns such as the loss-making utilities.

Investment

Romania is the second largest consumer market in Central and Eastern Europe and is now beginning to attract UK companies in increasing numbers. An Investment Promotion and Protection Agreement (IPPA) was signed in July 1995 and came into force in January 1996. It is the UK's fourth largest export market in Central and Eastern Europe. UK exports represent about 4.6% of Romania's imports. UK investments have risen steadily since the early nineties and the UK is now the fifth largest foreign investor

behind France, the USA, Germany and the Netherlands. Total foreign investment now stands at approximately US$7 billion.

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Candidate Country Market: Slovakia

Macro-Economics

Between 1994 and 1998 the Slovak economy grew strongly, with real GDP growth averaging 5.75%. However, this growth led to severe internal and external imbalances. A new government (elected in October 1998) set out its economic strategy and saw 1999 and 2000 as a stabilisation period, with high priority given to reducing the current account and fiscal deficits to sustainable levels. This fiscal consolidation reduced GDP growth to 1.9% in 1999, but also reduced the current account deficit to more sustainable levels. Inflation remains high (10.6%). Implementation of structural reforms will make Slovakia a more attractive location for investment (both domestic and foreign) and provide the basis for a stronger sustainable recovery in the medium term. Per capita GDP in 1998 was €3,394. 2.1% GDP growth is forecast for 2000.

Opportunity Sectors

The following sectors have been identified as offering good export and/or investment opportunities: automotive, clothing/fashion; consumer goods /retail and franchising; electronics; food processing; telecommunications and IT.

Privatisation

During the first wave of large-scale privatisation over 670 state-owned enterprises worth US$5.3 billion were privatised. In the second wave, over 880 companies have been privatised through direct sales, tenders and National Property Fund bonds. The private sector now generates over 80% of GDP.

In September 1999 an amendment to the privatisation law was passed abolishing the status of ‘strategic companies’ and allowing their future privatisation. Some exceptions include certain energy companies in which the state will retain a 51% majority stake.

Investment

The overall volume of FDI is relatively low, when compared with neighbouring candidate countries. In the table of cumulative foreign investment, Germany is top followed by Austria, USA and the Netherlands with Britain in fifth place. Last year USA was the leading investor closely followed by the UK. Foreign investment has concentrated in manufacturing, financial and insurance services, communications, real estate and research. The Slovak Government has recently introduced investment incentives through SNAZIR/SARIO (see below).

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Slovak Government Agency for Foreign Investment (SNAZIR/SARIO)

web-site: http://www.investinslovakia.com

Candidate Country Market: Slovenia

Macro-Economics

Slovenia is one of the most economically advanced countries in Central and Eastern Europe. GDP growth has averaged around 4% over the last five years and continued to progress well in 1999, achieving 4.9% GDP growth, with 4.4% forecast for 2000. GDP per capita for 1998 was €8,721, the highest of the Central European applicants.

Opportunity Sectors

The following sectors have been identified as offering good export opportunities: agriculture; clothing; footwear and fashion; food; drink; automotive components; consumer and 'lifestyle' goods; environment; telecommunications; transport and electronics and IT.

Privatisation

A complex system of privatisation was adopted including a mass privatisation programme by means of coupons. By mid-1998 significant progress had been made in privatising smaller and socially-managed enterprises. However, a number of larger enterprises remain to be privatised. Preparations are underway for the privatisation of the state-owned banks Nova Ljubljanska Banka and Nova Kreditna Banka Maribor. In 1999 the government announced its intention to sell at least a third of its stake in these two banks. Discussions continue between Nova Kreditna Banka Maribor and SKB Banka for their proposed merger.

Investment

Slovenia has been slow to attract foreign investments. It is, however, expected that foreign investment will increase once existing administrative obstacles are reduced. Despite this, foreign direct investment grows each year. The sectors offering most opportunity for investment are: tourism; infrastructure (in particular roads & railways); environment; telecommunications and medical/pharmaceutical industries. Total FDI in 1999 was US$2.7 billion with the largest investors being Austria, Germany, France and Italy.

The UK currently accounts for around 4% of total FDI, amounting to US$103.1 million (1999 figures). Leading British investors include PriceWaterhouseCoopers, Allied Domecq, ICL, SmithKline Beecham and Castrol.

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Trade and Investment Promotion Office (TIPO)

web-site: http://www.sigov.si/tipo

Institute of Macro-Economic Analysis and Development (IMAD)

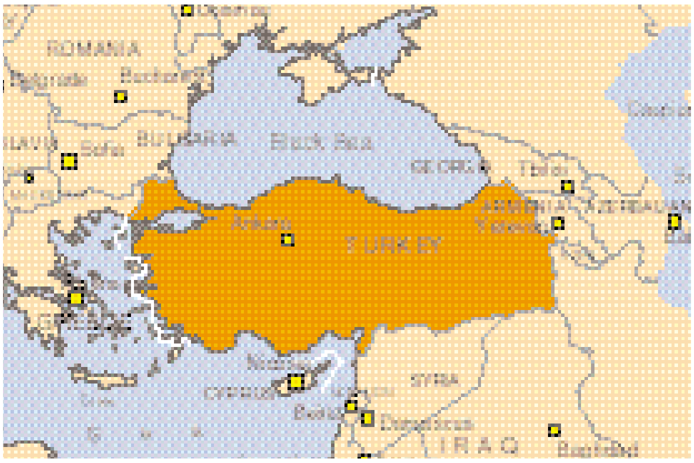
web-site: http://www.sigov.si/zmar

Bank of Slovenia

web-site: http://www.bsi.si

Chamber of Commerce and Industry
web-site: http://www.gzs.si

Candidate Country Market: Turkey



Macro-Economics

As a result of the Russian economic crisis and two devastating earthquakes Turkey suffered a major recession in 1999. The economy shrank by 6.4%, following a decade during which growth averaged 5%. However, recovery now appears to be underway, combining economic reform with packages from organisations such as the IMF. Over the first half of 2000 GDP growth was 5.7% and imports rose by 36%. 4.5% growth is forecast for the year as a whole. UK exports to Turkey during the first five months of 2000 were 49% up on their 1999 levels.

The importance of Turkey should also continue to grow with the confirmation of EU candidate status and the political and economic benefits this should bring. Per capita GDP in 1998 was €2,769.

Opportunity Sectors

Given Turkey's size and position, opportunities arise in most sectors: agriculture; automotive (components); building (inc. materials); energy; environment (water & wastewater treatment); food and drink (processing & packaging); healthcare; information technology and oil & gas. Electricity shortages mean that there is scope for power sector investment.

Privatisation

The privatisation programme in Turkey was launched over a decade ago and was originally among the most far reaching of any emerging market. In the early nineties the process faltered, mainly due to political and constitutional difficulties. Since 1985 privatisations have raised some US$10 billion, US$5.4 billion in 2000 alone. Privatisation remains on the current political agenda with the sale of 39% of Turk Telecom. Steps are being taken to privatise Turkish Airlines, the petro-chemicals company Petkim, the remainder of the oil refiner Tupras and the iron and steel producer Erdemir.

Investment

Around 55% of Foreign Direct Investment is in manufacturing (automotive, food and drink and chemicals); services account for about 40% (banking and trade). Major UK investors include Marks & Spencer, Thames Water, SmithKline Beecham and BP. Most major UK contractors have liaison offices or representation in Turkey. There are over 5,100 foreign capital firms active in Turkey of which 330 are British, making us Turkey's sixth largest investor.

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