



SOFIMUN
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TOPIC:
ECONOMIC FEASIBILITY OF ACCEPTING
NEW MEMBERS IN THE EU AND EMU

COUNCIL OF MINISTERS OF THE EUROPEAN UNION – ECONOMIC AND FINANCIAL AFFAIRS COUNCIL (ECOFIN)

The Economic and Financial Affairs Council is one of the oldest configurations of the Council of Ministers of the EU. It is commonly known as the ECOFIN Council and is composed of the Economics and Finance Ministers of the Member States, as well as Budget Ministers when budgetary issues are discussed. Its meetings take place once a month.

The ECOFIN Council covers EU policy in a number of areas, including: economic policy coordination, economic surveillance, monitoring of Member States' budgetary policy and public finances, the euro (legal, practical and international aspects), financial markets and capital movements and economic relations with third countries. It decides mainly by qualified majority, in consultation or co-decision with the European Parliament, with the exception of fiscal matters which are decided by unanimity. The ECOFIN Council also prepares and adopts every year, together with the European Parliament, the budget of the European Union which is about 100 billion euros.

The Euro-group, composed of the Member States whose currency is the euro, meets normally the day before the ECOFIN meeting and deals with issues relating to the Economic and Monetary Union (EMU). It is an informal body which is not a configuration of the Council. When the ECOFIN Council examines dossiers related to the euro and EMU, the representatives of the Member States whose currency is not the euro do not take part in the vote of the Council.



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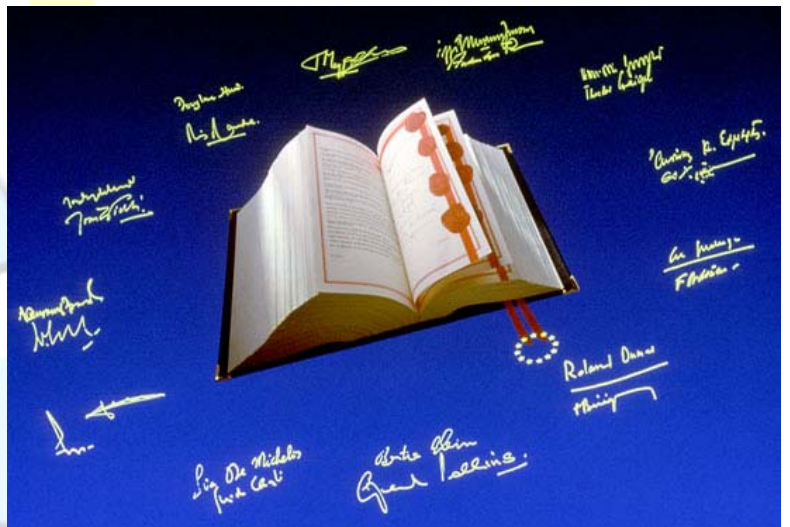
TOPIC:
ECONOMIC FEASIBILITY OF ACCEPTING
NEW MEMBERS IN THE EU AND EMU

Topic A: Economic Feasibility of Accepting New Members in the EU and EMU Considering Financial Climate

I. Background information/ Legal framework

The European Union Membership criteria are defined by the three documents:

- The Treaty on the European Union 1992- Treaty of Maastricht (Article 49);
- The declaration of the June 1993 European Council in Copenhagen- the Copenhagen criteria- describing the general policy in more details;
- Framework for negotiations with a particular candidate state:
 - specific and detailed conditions
 - statement stressing that the new member cannot take its place in the Union until it is considered that the EU itself has enough "absorption capacity" for this to happen.



NOTE: Before the Treaty of Nice (came into force on 1/2/2003), there was no mechanism to monitor the compliance of the already member states with the Copenhagen criteria.

▪ Copenhagen European Council

EU membership requires that the candidate country has achieved:

- Stability of institutions guaranteeing democracy,
- The rule of law, human rights and respect for and protection of minorities,
- The existence of a functioning market economy as well as
- The capacity to cope with competitive pressure and market forces within the Union.

Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries.

▪ Madrid European Council

In December 1995, The Madrid European Council underlined the importance of administrative adjustments for the candidate country prior to its entry to the Union. The acceding country is required to incorporate the



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European Community legislation into its national legislation, but it is even more important that the legislation is implemented effectively through administrative and judicial structures, so as to ensure the EU membership prerequisite-mutual trust. Following the Kosovo crisis at the end of the 1990s, the European Council added that candidates ought to settle their bilateral disputes, including through the involvement of the International Court of Justice where necessary, before entering the EU.

▪ **The Maastricht Convergence Criteria for Eurozone Members**



The EU set the Maastricht criteria as the original conditions for entry into the euro area by the founding members. Keeping to them ensures sufficient alignment for a sustainable and stable euro-area economy.

Therefore, prospective euro-area members must meet the same criteria:

- An inflation rate not exceeding by more than 1.5% that of the three best-performing Member States in terms of price stability.
- A general government deficit not exceeding 3% of GDP: an indication of sound public finances.
- Public debt of less than 60% of GDP or sufficiently diminishing and approaching this value at a satisfactory pace: a measure of the longer-term sustainability of public finances.
- A long-term interest rate not exceeding by more than 2% that of the three best-performing Member States in terms of price stability: an indicator of durability and credibility.
- A stable exchange rate, demonstrated by participation without severe tension in the exchange rate mechanism known as ERM-II and by keeping the exchange rate close to the central rate for two years prior to adoption of the euro.

This measures the robustness of the economy and the stability of real convergence by showing that the government can manage the economy without resorting to currency depreciation.

II. Current EU Acceding Countries and Candidates

Croatia, which is scheduled to join the EU in 2013, is currently recognized in EU terminology as an "acceding country." Five other countries are considered by the EU as official candidates for membership: Iceland, Macedonia, Montenegro, Serbia, and Turkey. All are at different stages of the accession process, and face various issues and challenges on the road to EU membership.



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III. Prospects for Future Rounds of EU Enlargement

The EU asserts that the enlargement door remains open to any European country that is able to meet and implement the political and economic criteria for membership. The remaining Western Balkan states of Albania, Bosnia-Herzegovina, and Kosovo are all recognized as potential EU candidates but their accession prospects and timetables vary. The EU hopes that the possibility of membership will help accelerate reforms and promote greater stability in these and other states interested in eventual EU accession. Countries such as



Ukraine and Georgia have also expressed long-term EU aspirations. On the other hand, "enlargement fatigue" in the wake of the recent addition of 12 new members has become a serious issue in Europe.

Although the EU is moving ahead with enlargement to include Croatia and probably some of the other Western Balkan countries and Iceland, experts assert that a number of European leaders and many EU citizens remain cautious about further EU enlargement. This is especially true with respect to Turkey or the countries of "wider Europe," usually considered to include Ukraine, Moldova, and the southern Caucasus (Georgia, Armenia, and Azerbaijan). EU officials increasingly stress that the process of enlargement must take into account the Union's "integration capacity." In other words, acceding countries must be ready and able to fully assume the obligations of EU membership, and additional EU enlargement must not endanger the ability of the EU's institutions to function effectively or render EU financing arrangements unsustainable.

Apprehensions about continued EU enlargement seem to be driven by several issues.

- Some EU policymakers and European publics have long worried that the addition of nations with weak economies and low incomes could prompt the influx of low-cost or unwanted migrant labor.
- The addition of large countries like Turkey or Ukraine could also have substantial financial consequences for the Union's budget and regional assistance programs, as well as implications for the functioning of certain EU institutions.
- Some key EU member states may fear that an ever expanding Union could ultimately weaken their ability to set the tone and agenda in EU institutions and to drive EU policies.
- Moreover, doubts persist about the ability of some potential EU aspirants to implement EU standards, especially in areas related to the rule of law, fundamental rights, and anti-corruption measures.
- Broad European concern with respect to ongoing enlargement is with the overall identity of Europe, what the Union stands for, and where "Europe" ends.



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Many experts believe that enlargement may soon be reaching its limits and that the EU is unlikely to include the countries of "wider Europe" for the foreseeable future. Moreover, commentators suggest that the EU's recent financial problems and sovereign debt crisis—which have hit the countries of the Eurozone particularly hard and caused some observers to doubt the future of the EU's common currency—could potentially slow future rounds of EU enlargement. They note that EU leaders are grappling not only with trying to remedy the Eurozone's financial troubles, but also with uncertainty about the future direction of the EU itself.

As a result, they may be less inclined to robustly push forward the enlargement agenda. Conversely, the EU's economic difficulties might make joining the Union—and ultimately the common currency—less attractive for some current and potential EU candidates. For decades, many countries aspired to join the EU largely for the economic benefits that membership would bring. If financial instability in the Eurozone persists, however, some aspirants such as Turkey—with a rapidly expanding and dynamic economy—may not view the benefits of membership as outweighing the potential constraints on its sovereignty and national fiscal and monetary policies.



IV. Budgetary Impacts

The reason why the economic crisis has had a relatively marginal effect on enlargement policy is that the financing of the EU enlargement process has little impact on the EU budget and no direct consequence for national budgets, many of which are seriously affected by the crisis. Most of the pre-enlargement costs are financed through the so-called Instruments of Pre-Accession (IPA), which account for some 12.9 billion euro for the current financial perspective (2007 – 2013), around 1.3% of the EU budget annually. The eventual impact on the EU budget when the candidate countries join is difficult to predict at this moment. Currently, only two countries enjoy a realistic chance of joining in this financial perspective (2007 – 2013), namely Croatia and Iceland. In both cases, neither a major reshuffle in budgetary transfers nor any substantial rise in the EU budget is likely to be precipitated by their accession. Both countries represent relatively small economies compared to the rest of the EU. Iceland, despite the recent economic turmoil, will probably be a net contributor to the EU budget. Croatia, although currently economically in a fitter position than some EU members, is likely to become a net recipient that might eventually deprive the biggest current net recipients (namely Poland and Romania) of some of their regional funds. Due to the current stalemate in accession negotiations, it is becoming increasingly likely that the deal on the next financial perspective will be hammered out without these countries being on board. This is another reason why possible concerns vis-à-vis the EU budget will not significantly influence current EU enlargement dynamics.



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APPENDIX 1

Process of Enlargement

According to the Maastricht Treaty, any European country may apply for EU membership if it meets a set of core political and economic criteria, known as the "Copenhagen criteria." When a country submits an application to join the EU, it triggers a complex technical process and a sequence of evaluation procedures. At most steps on the path to accession require the unanimous agreement of the existing member states. As such, a prospective EU candidate's relationship or conflicts with individual member states may significantly influence a country's EU accession prospects and timeline. Following the submission of a given country's application, the European Commission first issues a formal opinion on the aspirant country, after which the Council of





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Ministers decides whether to accept the application. Following a positive unanimous decision by all 27 member states in the Council of Ministers to accept a given country's application, that country becomes an official EU candidate. Accession negotiations, a long and complex process in which the candidate country must adopt and implement a massive body of EU treaties, laws, and regulations, may then begin.

The Commission and the Council of Ministers (acting unanimously) must also approve the actual opening of accession negotiations and a negotiating framework, which establishes the general guidelines for the enlargement talks. The EU's 80,000 pages of rules and regulations are known as the *acquis communautaire*. The *acquis* is divided into 35 subject-related chapters that range from free movement of goods to agriculture to competition. Accession negotiations on each chapter begin with a screening process to see to what extent the applicant meets the requirements of each chapter; detailed negotiations take place at the ministerial level to establish the terms under which applicants will adopt and implement the rules in each chapter. The European Commission proposes common negotiating positions for the EU on each chapter, and conducts the negotiations on behalf of the EU. Enlargement policy and accession negotiations are directed and led by the EU Commissioner for Enlargement and European Neighborhood Policy, currently Stefan Füle.

In all areas of the *acquis*, the candidate country must bring its institutions, management capacity, and administrative and judicial systems up to EU standards, both at national and regional levels. During negotiations, applicants may request transition periods for complying with certain EU rules. All candidate countries receive financial assistance from the EU, mainly to aid in the accession process.

Chapters of the *acquis* can only be opened and closed with the unanimous approval of all 27 existing EU member states acting in the Council of Ministers. Periodically, the Commission issues "progress" reports to the Council of Ministers and the European Parliament assessing the achievements in the candidate countries. Once the Commission concludes negotiations on all 35 chapters with an applicant state, the agreements reached are incorporated into a draft accession treaty, which must be approved by the Council of Ministers and the European Parliament. After the accession treaty is signed by the EU and the candidate country, it must then be ratified by each EU member state and the candidate country; this process can take up to two years.

APPENDIX 2

Status of acceding/candidate/potentially candidate countries

Croatia

In 2001, within a decade of gaining independence, Croatia concluded a Stabilization and Association Agreement (SAA) with the EU to govern relations, including financial and technical assistance geared toward helping Croatia meet the political and economic criteria for EU accession. Croatia submitted its application to join the EU in February 2003. In June 2004, the EU named Croatia as an official candidate for membership. At the time, the EU asserted that Croatia still needed to make further progress on some of the political preconditions for membership related to issues such as minority rights, judiciary reform, and the apprehension of war criminals stemming from the Balkan conflicts of the 1990s. In December 2004, the EU announced it would open accession negotiations with Croatia in March 2005, provided that Croatia demonstrated "full cooperation" with the International Criminal Tribunal for the former Yugoslavia (ICTY). The start of accession talks was delayed,



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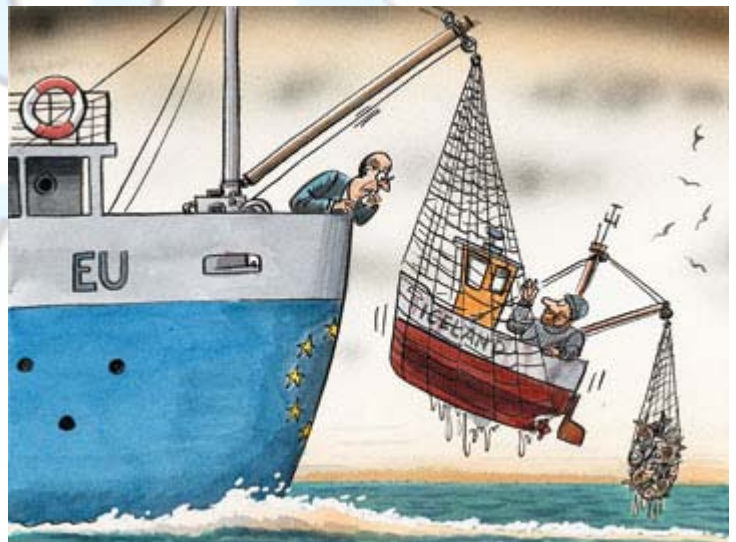
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however, because some EU members were not convinced that Croatia was cooperating sufficiently with the ICTY in apprehending a prominent war crimes suspect. EU accession talks with Croatia were eventually opened in October 2005, following a determination that Croatia was in full compliance with the ICTY. Croatia's accession talks stalled, however, in December 2008 when neighboring EU member Slovenia began blocking the opening and closing of several chapters of the acquis amid a border dispute. In September 2009, Slovenia agreed to resolve the border issue separately, detaching it from Croatia's EU membership bid and thereby allowing accession negotiations to continue. In June 2011, the EU concluded accession negotiations with Croatia. The EU and Croatia signed the Treaty of Accession in December 2011. Croatia is expected to become the 28th member of the Union on July 1, 2013, following the completion of the ratification process in both Croatia and in all existing 27 member states. The EU noted Croatia's transformation over the past two decades into a stable democracy with a functioning market economy and commended Croatia on the considerable progress it has made in bringing its laws, regulatory frameworks, and administrative practices into line with those of the Union; at the same time, the EU asserted that Croatia must continue with its reforms, especially those related to tackling corruption, increasing judicial transparency, and doing more to help disadvantaged minorities. On January 22, 2011, Croatian voters approved the country's EU accession in a national referendum, with 66% in favor.

Iceland

Although Iceland has close and extensive ties with the EU, it resisted joining the EU for decades. In July 2009, however, Iceland applied for EU membership in the wake of the 2008 financial crisis that led to the collapse of its banking system and the devaluation of its national currency. Many Icelandic officials believed that membership in the Union would significantly bolster Iceland's ability to recover from its economic recession. The EU named Iceland as an official candidate in June 2010, and began accession negotiations with Iceland in July 2010. Iceland has a stable democratic government and open market economy. Iceland and the EU have a free trade agreement dating back to 1972, and Iceland has been a member of the European Economic Area (EEA) since 1994. Through the EEA, Iceland



participates in the EU's single market and a significant number of EU laws already apply in Iceland. Also, Iceland is a member of the Schengen area, which enables Icelanders to work and travel freely throughout the EU, and participates in a number of EU agencies and programs in areas such as enterprise, the environment, education, and research. Given Iceland's existing integration with the EU, many observers expected accession talks to proceed quickly. As of the end of 2011, talks had been opened on 11 chapters, and 8 of these provisionally closed. However, several challenges remain for Iceland. These include resolving differences with the EU on fisheries and whaling policies, and settling an ongoing dispute over repaying the British and Dutch governments for debts incurred when Iceland's online bank— Icesave—failed in 2008. Furthermore, it is unclear at present whether Icelanders would support EU membership in a national referendum; Iceland's political parties are



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divided on the benefits of EU accession and recent public opinion polls suggest that a strong "no" camp exists. Experts assert that late 2013 is probably the earliest date by which Iceland would be ready to join the EU.

Macedonia

Macedonia, once part of the former Yugoslavia, concluded a Stabilization and Association Agreement with the EU in 2001. It applied for EU membership in March 2004. The EU named Macedonia as an official EU candidate in December 2005, but it has not yet secured a start date for accession negotiations. Since 2009, the European Commission has recommended that the EU open membership talks with Macedonia. The Commission has asserted that Macedonia is sufficiently fulfilling the political and economic criteria for membership, although it continues to urge Macedonia to complete necessary reforms aimed at improving the electoral process, protecting freedom of expression, promoting the independence of the judiciary, and strengthening anti-corruption efforts. Some EU officials and leaders also remain concerned about inter-ethnic tensions in Macedonia, especially with respect to its Albanian minority. Accession negotiations with Macedonia, however,



have largely been delayed by a long-running and ongoing disagreement with Greece over the country's official name. Macedonia maintains the right to be recognized internationally by its constitutional name, the Republic of Macedonia, but Greece asserts that it implies territorial claims to the northernmost Greek province of the same name. As a result of this dispute, Greece continues to block the opening of EU accession talks with Macedonia. EU officials acknowledge that progress on resolving the issue of the country's name is crucial in order to further Macedonia's EU membership bid. Currently, the EU

refers to Macedonia in official documents as the Former Yugoslav Republic of Macedonia (FYROM), a provisional name coined in 1993 to enable Macedonia to join the United Nations.

Montenegro

After ending its union with Serbia and gaining independence in June 2006, Montenegro and the EU began talks on a Stabilization and Association Agreement. The SAA was signed in October 2007. Macedonia applied for EU membership in December 2008 and was granted candidate status in December 2010.

In October 2011, the European Commission assessed that Montenegro had achieved the necessary degree of compliance with the political and economic criteria for accession talks to begin. At their December 2011 summit, EU leaders announced that they hoped to open accession negotiations with Montenegro in June 2012, provided that the European Commission finds that Montenegro is making sufficient progress in implementing its reform agenda. EU leaders emphasized that they would pay particular attention to Montenegro's efforts in the areas of rule of law, fundamental rights, and the fight against corruption and organized crime.



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Serbia

Until relatively recently, Serbian-EU relations were difficult and Serbia's path toward eventual EU membership faced several obstacles. Most EU member states and EU officials viewed Serbia as bearing the bulk of responsibility for the violent dissolution of the former Yugoslavia in the 1990s and for the 1999 conflict over its former province of Kosovo. Many in the EU considered Serbia as being slow to implement necessary political and economic reforms, largely uncooperative in tracking down Serbian war crimes suspects indicted by the International Criminal Tribunal for the former Yugoslavia, and resistant to normalizing relations with Kosovo (which declared independence from Serbia in 2008, but which is not recognized by Serbia). Over the last few years, however, Serbia has made considerable progress in modernizing its political and economic system. As part of EU efforts to boost pro-Western political forces in the country, the EU concluded a Stabilization and Association Agreement with Serbia in April 2008. In December 2009, Serbia submitted its formal application for EU membership. In the summer of 2011, Serbia's accession prospects improved significantly following the arrest and extradition of two high-profile war crimes suspects wanted by the ICTY. In October 2011, the European Commission recommended EU candidate status for Serbia, provided that it continued to work on improving relations with Kosovo in EU-brokered talks. Although many observers had expected that the EU would name Serbia as an official candidate country at its December 2011 summit, EU leaders postponed the decision. Some EU member states asserted that Serbia had not yet made sufficient progress in normalizing relations with Kosovo; EU leaders were also particularly concerned about the outbreak of violence in Serb dominated northern Kosovo in 2011. In February 2012, Serbia concluded two accords with Kosovo aimed at addressing some key EU concerns; Serbia agreed to conditions under which Kosovo may participate in Western Balkans regional institutions, and on the technical parameters for jointly managing its border with Kosovo (which EU officials hope will reduce tensions in northern Kosovo). In light of these accords, the EU named Serbia as an official candidate in March 2012. Analysts note, however, that the EU expects Serbia to achieve further steps in normalizing its relations with Kosovo before accession negotiations can be opened, and that even once such discussions begin, Serbia will not be ready to join the EU for many years. Experts also assert that ultimately, it is unlikely that the EU would admit Serbia as a member until Kosovo's status is fully resolved.



Turkey

Turkey has a long-standing bid for EU membership, but the relationship between Turkey and the European project has been characterized historically by a series of ups and downs. Although EU member states have always supported a close association with Turkey, divisions have and continue to exist among member states over whether Turkey should be allowed to join the Union given concerns about its political system, human rights record, economy, and large Muslim population. The status of Turkey's membership application is a frequent source of tension between Turkey and the EU. Turkish EU aspirations date back to the 1960s. Turkey and the



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European Economic Community concluded an association agreement (known as the Ankara Agreement) in 1963, which was aimed at developing closer economic ties. The Ankara Agreement was supplemented by an Additional Protocol, signed in 1970, preparing the way for a customs union. Nevertheless, Turkey's 1987 application for full membership in the European Community was essentially rejected. In 1995, the customs union between the EU and Turkey entered into force, allowing most goods to cross the border in both directions without customs



restrictions. In 1997, the EU declared Turkey eligible to become a member of the Union, but did not set a clear timeline for accession. In 1999, the EU finally recognized Turkey as an official candidate country; at the same time, the EU asserted that Turkey still needed to comply fully with the political and economic criteria for membership before accession talks could begin. and economic priorities Turkey needed to address in order to adopt and implement EU standards and legislation. Ankara had hoped that the EU would set a firm date for starting negotiations at its December 2002 summit, but was disappointed;

several EU members argued that although Turkey had undertaken significant reforms—such as abolishing the death penalty and increasing civilian control of the military—it still did not fully meet the membership criteria. Some member states also remained concerned about Turkey's stance toward Cyprus, which has been divided since 1974 between the internationally recognized Republic of Cyprus administered by the Greek Cypriot government in the island's south, and the Turkish Republic of Northern Cyprus, controlled by Turkish Cypriots. Turkish troops remain stationed in northern Cyprus, and Turkey does not recognize the Republic of Cyprus under the Greek Cypriot government. In December 2004, the EU asserted that Turkey had made sufficient progress on legislative, judicial, and economic reforms to allow accession talks to begin in October 2005, provided Turkey met two conditions by that time: bringing into force several additional pieces of reform legislation; and agreeing to extend Turkey's existing agreements with the EU and its customs union to the 10 new EU member states, including Cyprus. Turkey met both of these requirements by July 2005. In pledging to extend its EU agreements and the customs union, however, Turkey asserted that it was not granting diplomatic recognition to the Greek Cypriot government. After some contentious debate among EU members over issues related to Turkey's lack of formal recognition of Cyprus and whether a "privileged partnership" short of full membership for Turkey should be retained as a future option, the EU opened accession talks with Turkey in October 2005. The negotiating framework effectively requires Turkey to continue working toward normalizing relations with Cyprus and asserts that "if Turkey is not in a position to assume in full all the obligations of membership, it must be ensured that Turkey is fully anchored in the European structures through the strongest possible bond."

The EU maintains that the "shared objective of the negotiations is accession," but that it will be an "open-ended process, the outcome of which cannot be guaranteed beforehand." In other words, despite agreeing to open accession talks, Turkey is still not ensured eventual full EU membership. Detailed negotiations between the EU and Turkey on the *acquis* began in 2006. Since then, the EU has opened talks on 13 chapters of the *acquis* (one of these was provisionally closed in June 2006), but progress has been slow and negotiations have been complicated by Cypriot-related issues. According to the EU, Turkey's continued refusal to open its ports and airports to ships and planes from the Greek Cypriot part of the island, as required by the 1970 Additional Protocol and the customs union, is a major stumbling block. In December 2006, the EU decided to delay the opening of eight chapters dealing with areas affecting the customs union pending Turkey's compliance with applying the Additional Protocol to Cyprus. Although negotiations on other chapters would be allowed to



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continue or be opened when ready, the EU also asserted that no further chapters would be provisionally closed without resolution of the issues related to the Additional Protocol. In December 2009, the EU reaffirmed the freeze on the opening of the eight chapters affecting the operation of the customs union. Cyprus and France have also put holds on opening several other chapters of the acquis. Although accession talks between Turkey and the EU are expected to continue in 2012, many observers view the process as largely stalled. No new chapters of the acquis were opened in 2011, and little progress appears to have been made in the chapters already under negotiation. Experts contend that this slow pace suits some EU governments and many EU citizens who remain wary about the implications of Turkey's accession on the Union's institutions and finances given Turkey's size (with nearly 80 million people, Turkey would rival Germany as the largest EU country in terms of population), and the relatively large portion of Turks considered poor in economic terms. Despite Turkey's improving and increasingly vibrant economy, some in the EU still fear an influx of Turkish laborers, who would have the right to live and work in existing EU member states should Turkey accede to the Union. Many EU leaders and publics also worry that Turkey's predominantly Muslim culture would fundamentally alter the character, policies, and identity of the Union. In addition, EU concerns persist about the status of Turkish political reforms, the independence of its judiciary, women's rights, the degree of media freedoms, and the extent to which religious and ethnic minorities are protected. Analysts predict that at best, Turkish membership in the EU is at least another decade away. Moreover, they note that it is highly unlikely that Turkey would be able to join the EU without a political settlement on the divided island of Cyprus. A number of observers point out that some Turkish policymakers and citizens are also increasingly questioning the value of and need for Turkish accession given the EU's current financial woes and sovereign debt crisis, ongoing European concerns about Turkey's potential membership, and the perceived stalemate in Turkey's accession negotiations.



Potential Future EU Candidates in the Western Balkans

For many years, the EU has considered all the countries of the Western Balkans as potential future candidates. The EU's Stabilization and Association Process (SAP) is the framework for the EU's relations with the countries of the Western Balkans. The centerpiece of the SAP is the conclusion of a Stabilization and Association Agreement (SAA), which represents the contractual relationship between the EU and each Western Balkans country; the SAA also sets out EU financial and technical assistance to help each country meet the EU's membership criteria. Many view the SAA as the first step toward EU membership for the Western Balkan countries. With Croatia expected to become the 28th member of the EU in 2013, and with Macedonia, Montenegro, and Serbia formally recognized as EU candidates, three countries in the region with a future EU perspective remain: Albania, Bosnia-Herzegovina, and Kosovo.



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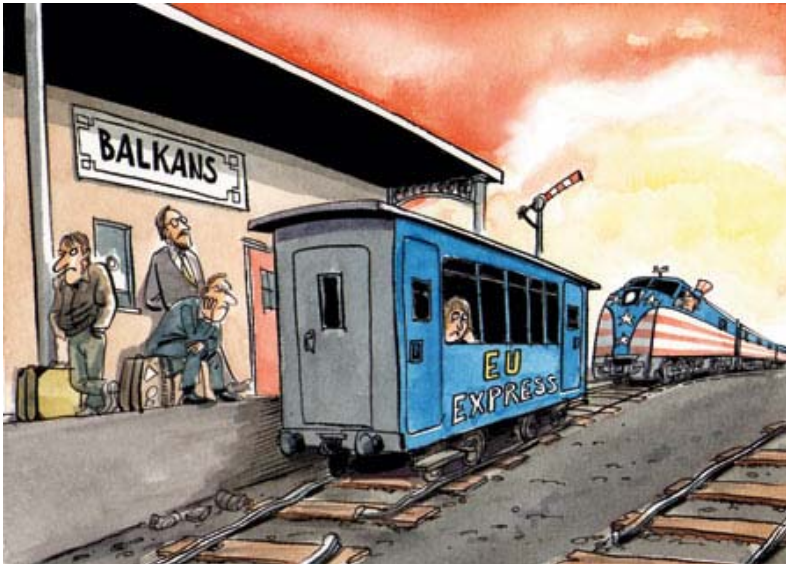
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Albania and the EU completed a Stabilization and Association Agreement in June 2006. In April 2009, the SAA entered into force and Albania formally applied to join the EU. In October 2011, in its most recent annual report on Albania, the European Commission asserted that although Albania has made some progress in meeting the political and economic criteria for membership, it has been limited, in part because of an ongoing political stalemate following Albania's June 2009 general elections. In addition to concerns about the implementation of democratic reforms in Albania, the Commission also highlighted several areas in need of more

work, including anti-corruption efforts, respect for media freedom, judiciary reform, the functioning of public administration, the protection of property rights, and the treatment of the Roma community. As such, the Commission maintains that the conditions required to grant Albania formal EU candidate status and open accession negotiations have not yet been met.

Bosnia-Herzegovina has not yet applied for EU membership. Bosnia and the EU signed a Stabilization and Association Agreement in June 2008 and an interim agreement is in place. In its most recent assessment in October 2011, the European Commission judged that Bosnia had made only limited progress in meeting the EU's core political criteria and that further efforts were needed to establish a functioning market economy. EU officials remain deeply concerned with what they view as Bosnia's unstable political climate and continued ethnic divisions and tensions. EU worries about corruption and organized crime in Bosnia also persist. The EU maintains a peacekeeping force and a police mission in Bosnia.

Kosovo declared its independence from Serbia in February 2008 and is recognized by the EU as a potential future candidate under U.N. Security Council Resolution 1244, which ended the 1999 conflict between Serbia and Kosovo. Serbia insists that Kosovo remains part of its territory; most but not all EU member states recognize Kosovo's independence. Kosovo participates in the Stabilization and Association Process and receives pre-accession financial assistance from the EU, but efforts to forge an SAA are complicated by the lack of full EU diplomatic recognition, as well as by Kosovo's weak political institutions and economy. In its October 2011 annual report on Kosovo, the European Commission noted that the government has demonstrated a commitment to align its laws with those of the EU, but political reforms are proving difficult and Kosovo has failed to make progress on establishing a functioning market economy; the Commission also cited organized crime and corruption as key EU concerns in Kosovo.

Sources: European Commission, Enlargement Strategy and Main Challenges 2011-2012, October 12, 2011; "EU Enlargement," BBC News, December 9, 2011.



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