

Portugal A European Story

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Portugal – a European Story
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A European Vocation

*Francisco Seixas da Costa**

Fifteen years after Portugal joined what was at the time the EEC it is clear that this choice was one of the most important decisions taken by Portuguese political leaders in this century.

Portugal entered the European project with the aim of consolidating democracy and development in the country, while reconciling itself with its geopolitical roots. After a long authoritarian regime that suspended democratic structures already in force from the second decade of the nineteenth century, and a phase in which the State was reshaped following the 1974 Revolution, a new generation of Portuguese politicians quickly expressed their agreement with the institutional project that in western Europe was created following the Second World War.

Having spent a long time with its back turned to the continent of Europe, and not having been quick enough to interpret the historic destiny of its colonial period, Portugal let itself be left on the fringe of the European family and fell into a position that placed it politically and economically on the periphery, further aggravated by its geographic location.

Joining the European project therefore reflected a solid determination to ensure that the country would return to its historical and cultural origins and to its undeniable European vocation. But this move also meant that in this project for integrating the continent Portugal could contribute the rich heritage gleaned from the country's long experience of historic relations with other parts of the world and, in this way, add to the diversity of the project.

* Secretary of State for European Affairs.

Portugal in 2000 is a country very different to the one that on 1 January 1986 began its involvement in the Community institutions. The modern country we see today – where the economy, infrastructure and, above all, attitudes, have all been changed – is the result of the positive shock that forced it to change radically the national way of life and the way in which the country was organised, as well as to understand the advantage of working to build up an ever more solidly based common process, now accepted as a specific model for civilisation.

The European Union had a significant impact on Portugal's economic and social fabric and on the modernisation of public administration, introducing a more studied culture and growing harmonisation based on quality standards. The effect of regional financial aid has been felt in sectors as important as road infrastructure, the environment, health, education, and staff training in many different fields.

But today Portugal no longer interprets its presence in the Community institutions only as a source of resources, although this is still essential for reducing the gap between Portugal and the European average in terms of wealth and development.

The Portuguese philosophy underlying the approach to European issues is now far more active and participative, based on a genuine collective interest in deepening integration with its partners, adding strength to common institutions and collaborating in defining a European position in the major strategic challenges faced by the Union.

Portugal is present in all areas where more integration has been achieved, from the Single Currency to the Western European Union, and including the Schengen Agreement. The country has shown that it is ready to share fully all the major political options outlined for the European Union of the future.

By way of example, Portugal is playing its part in strengthening the Union's foreign involvement in military operations in areas of conflict management. Without jeopardising the trans-Atlantic link that is seen as a priority to be preserved, Portugal is among those who see this as being compatible with increasing a security dimension on a European scale to act as the operative element in a Common Foreign and Security Policy, essential for the Union's foreign expression as a political entity.

Although to the surprise of some, Portugal's position has been particularly firm and consistent in meeting the major challenge of enlarging the Union. From the start Portugal has made it clear that it interprets this step as a geopolitical imper-

ative to which Europe must find an effective, positive response, immaterial of economic considerations that will have to be regulated within their own framework. The political reunification of the continent is an objective that the Portuguese government holds high on its list of European priorities and to which it has given much attention and acceptance.

It is clear positions such as these that define the way in which Portugal is placed in today's Europe and that describe the country's deep attachment to the integration project. Support for this at home has a definite political majority and the solid backing of the Portuguese people.

This positive sentiment witnessed in Portugal towards Europe is the result of what we could call the "balance" of our experience over these years of integration. It is of this experience, and of the successes and errors made, that the articles in this book speak. They were written by distinguished figures from a range of political sectors and with experience in different specialist fields.

At the close of the Portuguese presidency of the European Union, during which once again there was an opportunity to demonstrate the enthusiasm with which we view the European project, this book aims to mirror something of the past fifteen years of our presence in the Community institutions. But above all it is proof that, for a country such as Portugal, the European Union is today the right space for affirming its national project for development and that, basically, Europe is seen by us today as another name for freedom.

Lisbon, 30 June 2000

Portugal: The European Way*

Álvaro de Vasconcelos

Introduction

The desire to consolidate Portugal's democracy was a major factor in the country's accession to the European Community. Mário Soares, who signed Portugal's Treaty of Accession to the EEC in 1985 in his capacity as prime minister, considers that this choice, formally expressed eight years earlier, quite apart from its importance in consolidating democratic rule, progress and economic development, also indicated that Portugal was returning to Europe: a necessary counterpoint for a small democratic State that had loyally decolonised and given up its empire.¹ The initial motivation was, indeed, essentially political. It involved securing democracy, integrating the Western world once and for all and joining Europe, in particular to obtain the boost it needed to reform the Portuguese economy. Portugal was then emerging from a crisis. The dictatorship had been overthrown following an army officers' revolt in April 1974, the Communist Party had gained great influence and tried to take power, and the majority of large firms and banks had been nationalised.

After the accession, there followed a period during which a virtually exclusive priority was given to economic and social development. The political dimension of Europe was viewed with extreme caution. This was still the position held

* This chapter draws widely on the author's paper *Portugal 2000: The European way*, published by Foundation Notre Europe, Paris, January 2000.

¹ See the contribution of Mário Soares in this volume.

by Portugal during the 1991 intergovernmental conference (IGC) that led to Maastricht. It was only with Portugal's first presidency of the European Union in 1992, during the second phase of majority PSD government, and in particular since late 1995, when the minority PS government took office, that political issues gradually re-emerged both in Portuguese priorities and in the debate on Europe. The great national ambition of bringing Portugal up to the Community standard of living as quickly as possible was, however, not abandoned. This new political orientation coincided with a period of great Portuguese activity within the European institutions.

Unlike the United Kingdom, where the European debate is centred on the euro, in Portugal, as in most countries of the European Union, there is no single predominant issue. A few main issues can, nevertheless, be identified, which together encompass the many arguments still used in the debate on Europe:

- Portugal's position at the centre or periphery of European integration.
- European balance and greater democracy in the decision-making process: the relationship between small and large countries.
- Social cohesion and employability: the European way.
- European policy and Atlantic ties.

In Portugal, the debate on Europe is limited to the sphere of those in favour of European integration. Given the mingling between politicians, academics and intellectuals in general which is characteristic of Portuguese society, political and intellectual debates often merge. And the main participants are a few politicians, experts and analysts, even fewer businesspeople, and some think tanks and specialist publishers.

During the 14 years of Community membership up to 1 January 2000, and largely because of its success, the nationalist movement has steadily lost influence. Initially opposed to accession, it subsequently showed a willingness to participate while seeking to draw the greatest economic advantage and remaining hostile to advances towards political union, which was seen as a serious threat to national sovereignty.²

Portugal's policy towards Europe has been dominated by the country's two main parties: the Social Democrat Party (PSD), which formed non-coalition governments from 1985 to 1995, and, since the October 1995 elections, the Socialist

² For a critical analysis of anti-European nationalist currents, see José Calvet de Magalhães, "Portugal na Europa: o Caminho Certo", *Estratégia*, 10-11, winter 1993-94.

Party (PS). Taken together, these two parties have since 1987 accounted for over 75% of the votes. Both are thoroughly pro-European. Yet their leaders do not, as a general rule, describe themselves as federalists, and for years – both when in power and when in opposition – have taken a pragmatic, cautious and realistic approach to policy on Europe. The converging views of the PS and the PSD on the bulk of European issues mean that developments in Portugal's official position are directly related to changes in the positions of those parties and to their reading of Portuguese public opinion, which has shown firm and continuous support for European integration. Debate on the major European issues has to a great extent been determined by these trends, and any fault-lines in the general consensus tend to result from the periodic requirements of the domestic political calendar rather than fundamental differences.

The third party in favour of membership, a Christian Democrat party then called the Social Democratic Centre (CDS), at the time included a number of federalist intellectuals, such as the late Francisco Lucas Pires, who had an excellent grasp of European affairs. The party subsequently came to be dominated by a populist and nationalist group of militant anti-federalists, who changed the party's name to the Popular Party (CDS-PP), opposed the Treaty on European Union and the euro and lost their place in the European People's Party. Confronted with a materialising European single currency and Portugal's inevitable (and popular) participation in the process, the CDS-PP – which had meanwhile dismissed its leader – opted for a euro-compliant attitude, while not giving up its militant anti-federal stance³, and stopped describing itself as "the only party within Europe defending the idea of nationhood"⁴.

The Portuguese Communist Party (PCP) followed a very similar course, opposing membership, the Treaty on European Union and the euro, before resigning itself to the fact that Portugal belonged to the European Union. A far-left coalition has emerged from the October 1999 parliamentary elections. The positions adopted by the left-wing group have, so far, been too disparate for them to have an influence on discussions regarding Europe.⁵

³ Paulo Portas, the current CDS-PP leader, "Uma Agenda Nacional na Europa", *Expresso*, 16 January 1999.

⁴ *Público*, 31 March 1999.

⁵ The results of the parliamentary elections in October 1999 were as follows: PS (44%), 115 seats; PSD (32.3%), 81 seats; PCP (9%), 17 seats; CDS-PP (8.4%), 15 seats; BE (2.5%), 2 seats.

The body of dedicated pro-Europeans – few of whom declare themselves to have been federalists from the outset – is well represented in Portugal where, independent of party lines, it embraces the entire European political spectrum and includes such distinguished personalities as the country's former president, Mário Soares, and the essayist Eduardo Lourenço.

Because of excessive concerns about identity, the kneejerk nationalist reactions of what is a small outlying country and, to a lesser extent, the adverse – albeit declining – effect of the anti-European propaganda of both left and right, federalism has long been considered as tantamount to antipatriotism. It was generally thought that Portugal would be crushed by the weight of the large countries in a federal European Union, and would be unable to put across its views and defend its interests. An intergovernmental model based on the unanimity rule was believed to provide better protection against Portugal's larger partners. This attitude is, however, now beginning to change. Unanimity is losing support because the veto is not a politically viable option (and even less for small countries than large ones), except as a weapon of last resort and thus only in exceptional circumstances. A framework which would be hybrid, of course, yet with a greater federal component is therefore coming to be seen as more likely to preserve some sort of balance.

Centre or periphery?

There has been a change in the relative weight of economic and political issues in Portugal's approach that is intimately linked to the debate on Portugal's place – at the centre or the periphery – in Europe. The fact that the focus of discussions on Europe has changed over time does not mean that the two viewpoints cannot coexist, or cannot indeed sometimes both be expressed by the same political leader. In this respect, politics are neither more nor less schizophrenic in Portugal than in other European States.

Paradoxically, despite the eminently political nature of the initial motivation to join, the first phase of Portugal's membership of the Community (from 1986 to 1991) was marked by considerable caution in the political area, great wariness of supranationality and the desire to derive the greatest possible benefit from membership in terms of Portugal's development.

Portugal's "less political" attitude towards European integration arose partly from a perception of the country's peripheral position, together with a feeling that

the major political interests in Europe resided in the highly industrialised north European countries, notably France, Germany and the Benelux group. The attitude was rooted in a perception that "there is Europe, and then there is us", as Eduardo Lourenço, Portugal's most outstanding contemporary essayist, has written. "This curious way of 'separating' ourselves from Europe, and of considering 'real' Europe as separate from us, is reflected in the well-known distinction between Europe beyond the Pyrenees and Europe this side of the Pyrenees." The exclusion of Portugal and Spain from the European post-Cold War process obviously encouraged this attitude. Portugal also belonged to "the other Europe" on account of its scientific and social backwardness, which was genuine.⁶ That is also why catching up involves joining the "real" Europe.

This feeling of distance has shaped the relationship between European and national identity. The concept of Portuguese identity, commonly perceived as that of a culturally homogeneous nation State, encourages a defensive attitude towards any plans for a supranational identity, which is automatically considered a threat. The concern to respect each country's traditions and culture within the European framework (expressed in practice by a fierce defence of the equal status of each of the European Union's working languages) is one facet of this attitude, which does have the beneficial effect of addressing the issue of European identity in strictly political terms, without cultural undertones, as a matter of common values and interests.

This sensitivity to questions of national identity is not incompatible with universalism and should therefore not be confused with anti-European ideological nationalism, which is a symptom of the persistent influence of Salazar's thinking in certain circles. Ideological nationalism, as described by José Calvet de Magalhães, is a "doctrinaire attitude which takes national values to be absolute values, and opposes anything that smacks of internationalism or requires a recognition that national values are relative, in the name of higher human values".⁷ This tendency believes that Portugal must remain on the periphery of any process of political integration to preserve its identity and sovereignty. Participation in the European Union was therefore seen as an even greater threat to the national identity and character. The influence which the nationalists had retained in the foreign policy sphere partly explains the timidity of Portugal's first political steps in Europe.

⁶ Eduardo Lourenço, *Nós e a Europa ou As Duas Razões* (Lisbon, INCM: 3rd ed., January 1990).

⁷ José Calvet de Magalhães, "Portugal na Europa: o Caminho Certo" (*op. cit.*).

Posing as a "good pupil" in the Community classroom, Portugal adopted a diplomatic approach which was highly cautious and based on defence of the status quo, and remained strongly attached to an intergovernmental outlook, on the assumption – which still exists – that Portugal's interests were often minor or peripheral compared with the "Community average".⁸ Defending economic and social cohesion, particularly where negotiating the distribution of structural funds was concerned, took precedence over other policy areas. During the 1991 intergovernmental conference, Portugal opposed all advances in political union but enthusiastically supported the major steps taken towards economic and monetary union. The domestic implications of such a stance were obvious. In 1992, seven years after joining, the government decided to take the escudo into the European monetary system. This implied accepting the convergence target, which would in fact be met. Although domestic political issues were the prime concern, opening up to trade, and the completion of the single market, required Portuguese entrepreneurs to modernise and to become competitive. It was clear to the Portuguese government that there was a "correlation between financial development and economic and social development"⁹, with particular implications for the need to control inflation. This had peaked at 29% in 1984 and still stood at 13.16% in 1990.

Portugal's presidency of the European Union in 1992 marked the beginning of the country's exploration of Europe's political dimension. For the PSD and the PS, however, the ensuing years continued to be dominated by economic and financial issues arising from Portugal's desire to participate in the euro from the very outset. Being at the heart of Europe then meant being able to belong to the euro's "inner circle".¹⁰ Many observers, however, viewed Portugal as being on the periphery and condemned to remain there after the collapse of the Berlin wall. Pushed by Germany, the European Union was

⁸ Especially in areas such as agriculture, fisheries, textiles and the environment.

⁹ Jorge Braga de Macedo, "Convergência na Economia Europeia: o Contributo Português", *Análise Social*, 118-119, 4th series, vol. XXVII, 1992.

¹⁰ For an analysis of the significance of the euro for Europe and Portugal, see Aníbal Cavaco Silva, *Portugal e a Moeda Única* (Lisbon: Verbo, October 1997); Vítor Constâncio, "A Europa da União Económica e Monetária", in *Europa 1996* (Lisbon: Fundação Gulbenkian, 1998); and Francisco Torres, "Portugal Towards Economic and Monetary Union", in *Joining Europe's Monetary Club: The Challenges for Smaller Member States*, Erik Jones, Jeffrey Frieden and Francisco Torres (eds) (New York: St. Martin's Press & Basingstoke: MacMillan, 1998).

bound to start looking eastwards or – according to the apocalyptic vision of traditional nationalists – succumb to Germany's hegemonic goals.¹¹

In a second phase, from 1992 up to the present, Portugal gradually became more involved in Community affairs and began dissociating itself from British positions. Certain publications released at that time, independently from the political parties, had an influence on the European debate. Their thrust was that Portugal should relinquish the timid position it had displayed in the 1991 intergovernmental conference, and support advances towards political union. Portugal's duty was to be at the heart of Europe and not display the complexes of a small State fearful of anything with a supranational flavour. Portugal, which has a greater influence in political than in economic matters, sees itself as one of the countries that has most to lose if the European Union were to become a vast free-trade area with no real political power. Such a framework would inevitably lead back to a balance-of-power system and therefore a directorate of the large States.¹² Along the same lines, Francisco Lucas Pires wrote around that period that none of the issues which are essential to Portugal are unrelated to the future of the European Union.¹³ The reverse is equally true for Jorge Sampaio, who said that "nothing that affects Europe can be foreign to us".¹⁴

This new development became particularly obvious when the government changed in 1995, with the inflexion given by the new prime minister to debate and action in the political and diplomatic spheres. For him, Portugal "wants to be and must be at the heart of the European integration process".¹⁵ To achieve this, he ended Portugal's alignment with Britain and gave a priority to relations with Chancellor Kohl's Germany, the engine of European integration. To enable the country to play its full role as a member of the European Union, put an end to its peripheral status and make its voice heard on the major European political, economic

¹¹ This summarises the argument of Franco Nogueira, foreign affairs minister under Salazar, developed in *O Juízo Final* (Porto: Civilização, 1992).

¹² *Portugal no Centro da Europa – Propostas para uma Reforma Democrática da União Europeia*, anthology by Álvaro de Vasconcelos (ed.), Francisco Torres, Guilherme d'Oliveira Martins, Luís Pais Antunes, Maria João Seabra and Teresa de Sousa (Lisbon: Quetzal Editores, 1995).

¹³ Francisco Lucas Pires, *Portugal e o Futuro da União Europeia. Sobre a Revisão dos Tratados em 1996* (Lisbon: Difusão Cultural, 1995).

¹⁴ Jorge Sampaio, *Público*, 26 May 1995.

¹⁵ António Guterres, *Visão Estratégica da Política Externa Portuguesa com Relevância para a Construção Europeia*, contribution to the monthly debate in the Portuguese parliament, 8 April 1999.

and social issues, Portuguese diplomacy was instructed to get involved in the European debate. It is worth noting in particular that from then on Portugal's involvement ceased to be restricted to matters of direct relevance to Portuguese interests¹⁶, such as the Structural Funds, and was expanded to include all the major issues of European integration on the basis of a political view of Europe's role. According to this view, only a Europe able to speak with a single voice on the great issues facing the world today will carry weight in shaping the new international order and be able to help make the world more balanced and multilateral. The view of Europe thus became eminently political.

This change in attitude towards Europe results from three main factors:

- Awareness of the progress made in terms of development, and of the fundamental importance of the European dimension in the qualitative improvement in Portugal's economy and wellbeing.
- Strong public support for the idea of Europe.
- Renewed interest for political questions within the European Union itself.

In Portugal, the assessment of membership is unequivocally favourable. The indicators of economic growth and living standards show enormous improvements, which are there for all to see in the form of infrastructure works. The country's per capita GDP, which stood at 54.2% of the Community average for the period 1974-1985, rose to 64.6% for 1986-1998; inflation (around 30% in 1984) was brought under control and fell to around 2.5% in 1998. There remain certain sectors, such as agriculture, where the impact is generally considered to be negative. The CAP, designed to meet the needs of northern agriculture, is deemed totally inappropriate for Portugal. The government has even stated that it was only after the decisions on Agenda 2000 taken in Cologne that the "scandal of Portugal as a net contributor to the CAP" came to an end. Agriculture and fisheries are, more over, a constant theme in anti-European propaganda campaigns, although the picture for fisheries is less clear-cut.

The impact of European Union membership on the remarkable improvement in the economic situation of Portugal and its inhabitants has naturally contributed to the strong public support for European integration. This is clearly

¹⁶ One visible consequence of this change is the choice of a Portuguese commissioner for a field less directly relevant to national interests, Justice and Home Affairs, but having the trade-off of enhancing influence at Community level.

apparent, for example, in the backing for the single currency. There has always been a clear majority in favour of Portugal's EU membership, in spite of some fluctuations and marginal levels of opposition, from 1986 to today. In 1999, 59% considered it a "good thing" and only 4% thought it a "bad thing" for Portugal to be a member of the European Union, these proportions being much more significant than the Community average in both cases. It is interesting to note the pronounced correlation between enthusiasm for Europe and everyday issues of most concern to the population. In a recent survey by Eurobarometre, for instance, 94% of those questioned considered that employment should be a priority for the European Union.

Portugal's greater political commitment to European integration coincides with a similar trend within Europe as a whole. It must be said that Europe has taken some time to realise the need to go back to basics and develop a political union, complete with a security and defence dimension and based on supranational democracy. Without claiming to be in the vanguard, Portugal has followed this trend in the realisation that European integration can no longer be achieved via a slow and methodical development process based primarily on market factors. When, following Maastricht, the European debate finally became public throughout Europe, the idea of submitting membership of the European Union to a referendum emerged for the first time in Portugal.

However, the first major political debate after accession was to a fair extent imposed by the anti-Maastricht currents which, through their criticism of the Treaty on European Union, were seeking to challenge the European Union itself. The CDS-PP and the PCP – especially the former – had been actively involved in the anti-Europe and anti-Maastricht campaign, and they put forward the argument that the Treaty on European Union represented a significant and unacceptable loss of sovereignty for Portugal. Some members of the pro-Europe camp also opposed the Maastricht Treaty, casting doubt on whether progress towards political integration was compatible with strengthened democracy at European level. They considered that democracy was possible only in a national context.

The significance of the debate on Maastricht is that it carried, perhaps irreversibly, the issue of Europe – which until then had been discussed only in private circles – into the public arena. Although the discussions have meanwhile become more low-key – neither the Amsterdam decisions, nor the virtual disappearance of anti-European rhetoric from party political discussions (partly for reasons of domestic politics), having encouraged a comparable debate – there remains a need

to rethink European democracy and satisfy the population's desire to take part in it. When with Amsterdam, progress began to be made in the political sphere, Portugal again followed the general trend. More recently, it also supported the great step forward taken when defence, an essential component of a credible and effective foreign and security policy, was put on the agenda. Democratic Portugal has made every effort to participate in all of Europe's cooperative forums: the European Community, the Western European Union (WEU), the Schengen convention and economic and monetary union. The same will hold true for European defence.

The issue of European balance and democracy

The debate on European institutions and their reform is primarily about preserving each country's specific weight at European level. Following the Maastricht treaty and the resulting proposals for changes to the institutions, Portugal became attached to the issue of "small" and "large" European States and the concern that any type of "directorship" might take shape. At the same time, another debate emerged about compatibility between democracy and supranationality on the one hand and federalism and the defence of national interests on the other. It now amounts to a search for a specifically Portuguese proposal for democratisation of the European process.

One of the most obvious changes now observed is that Portugal's relative weight among European States has increased as a result of its membership of the European Union. Only a small number of politicians and experts truly believe Portugal is currently a victim of the great powers' hegemony within the European Union. However, while the elite are aware of the power that Portugal has gained through membership of the Union, the notion that the great powers are pulling the strings persists in public opinion. According to a recent survey, the Portuguese consider the most unfavourable aspect of European integration to be the fact that the small countries depend on the decisions of the most powerful (28.5%).¹⁷ The current vote weighting system, the Portuguese commissioner, the rotating presidency and the country's involvement in all EU institutions are regarded as acquired rights and evidence of Portugal's status in Europe. The commissioner's post, for example, is seen as an assurance that the Commission will bear in mind the

¹⁷ Survey by the Universidade Católica, *Público*, 24 March 1999.

country's specific circumstances, and as a factor contributing to the legitimacy of the European executive. Consequently, maintaining a minimum of one commissioner per country (rotation only being acceptable so long as all are equal) is not regarded as a subject open for debate during the intergovernmental conference in 2000.¹⁸ Portugal has proved particularly sensitive to anything that could undermine the country's status within the Community. And that, as João de Valleria points out, "is the case not only when the treaties are being reviewed, but continuously throughout the decision-making process".¹⁹

The current institutional system is therefore seen as one of the basic foundations of the European Union which, having delegitimated the balance-of-power policy, has also delegitimated power politics between the Member States in favour of seeking the common interest.²⁰

For this reason, the Portuguese are particularly wary of any plan that could tend to create a directorate of large States. It is common for Portuguese politicians speaking on Europe to point to the threat of a directorate. There was particularly severe criticism in Portugal of the CDU-CSU proposal, made by Schäuble and Lamers and submitted during the 1996 IGC, to form a European inner circle comprising France, Germany and the Benelux countries.²¹ All the more so as this document considered, wrongly as it turned out, that the so-called "Club Med" countries would not be joining the single currency. Both Cavaco Silva and Durão Barroso drew attention at that time to the danger of formalising distinctions between Member States, which could lead to a disintegration of the Union.²² Although certain experts saw the document as a "serious intervention", they steadfastly opposed the concept of a Europe made up of first-class and second-class members, i.e. divided into rich and poor.²³ This refusal to accept dividing lines also explains the insistence that strengthened cooperation should retain an open and non-exclusive character.

Francisco Seixas da Costa, the junior minister for European affairs, has pointed out that "so far, no one has demonstrated that the supposed malfunctioning of the

¹⁸ See, for example, Jaime Gama, interview in *Expresso*, 30 December 1999.

¹⁹ See the contribution of João de Valleria in this volume.

²⁰ See *Valores da Europa – Identidade e Legitimidade* (Cascais: Principia/IEEI, 1999).

²¹ Reflections on European Policy, Parliamentary Group of the CDU/CSU, Bonn, 1 September 1994.

²² *Agence Europe*, 21 September and 5 October 1994.

²³ See, for example, Francisco Lucas Pires, *Portugal e o Futuro da União Europeia. Sobre a Revisão dos Tratados em 1996* (Lisbon: Difusão Cultural, 1995).

institutions is due to the weighting of votes or the size of the Commission." Portugal accepts the need to make the Community more efficient by extending qualified majority voting, but considers that enlargement is being used by some of the so-called large States to "revise their relative positions upwards" and try to avoid the emergence of minority blocking groups.²⁴ In order to resolve this problem of balance, Portugal would prefer introducing a double majority rather than reweighting the votes. Few in Portugal believe there is, in the words of Maria João Seabra, "a profound imbalance in the weighting of votes, which must be rectified"²⁵, particularly since this over-representation of small and medium-size States, which has been a constant feature of the Union, is set to worsen with the future enlargements. Nevertheless, introducing changes to the current balance within the Council would be viewed as an adjustment to the existing institutional system rather than as a genuine reform. The small countries have, up to now, never allied against their large counterparts; alliances tend much more to depend on interests, and consequently to vary and shift.

Some observers in Portugal have come to stress the need for a reform able to resolve the democratic deficit and ensure better political supervision of the Community bodies. Advocates of this viewpoint consider that the Portuguese government cannot take a minimalist approach to the 2000 IGC, despite the fact that it holds the presidency. It should rather adopt as participatory and militant an attitude as possible. For Francisco Lucas Pires, the small States should not, during the IGC, merely say "no" to institutional reform. On the contrary, it is up to them to "propose an alternative or a new overall approach – basically the 'right approach' – along the lines of greater democracy and separation of powers".²⁶

As regards greater democracy in the European process, three currents of opinion have emerged in Portugal.

– There is the traditional pro-integration camp, which is in favour of more codecision with the European Parliament and a distribution of tasks which would more closely reflect the Commission's role as the genuine Community executive.

– There are the true federalists, who are calling for the creation of a second chamber in the European Parliament.

²⁴ *Diário de Notícias*, 19 May 1999.

²⁵ Maria João Seabra, "O Peso dos Estados na Reforma Institucional", *O Mundo em Português*, January 2000.

²⁶ Francisco Lucas Pires, "Grandes e Pequenos no Pós-Amsterdão", *Estratégia*, 12-13, Jan.-Jun. 1999.

– And there is a minority of "nationalists", who purely and simply want the entire European process to be returned to the individual States.

For Guilherme d'Oliveira Martins, an early Portuguese partisan of creating a European senate to guarantee a double European legitimacy, that of the citizens and that of the States, the second chamber should be elected by direct universal suffrage.²⁷ Recently spelling out his proposal, he wrote: "The point is not to create one more body or institution, but to grant the European Parliament greater legitimacy by having the States represented. Hence the fact that the various States should be equally represented in a future senate, irrespective of their size".²⁸ José Medeiros Ferreira, a historian and former chairman of the parliamentary committee on European affairs, has also advocated creating a second chamber composed of representatives of the national parliaments, instead of strengthening the role of Cosac (the conference of European Community affairs committees), which is too limited. Greater democracy would thus be achieved by strengthening the national parliaments' involvement in supervising the Community's decision-making process. According to Mário Soares, creating a senate would also facilitate a significant increase in qualified majority voting in the Council, widely regarded as the best way to deal with the problem of European governance posed by the next enlargements. The creation of a senate where all States had the same weight would be one way of compensating the States for the loss of the unanimity rule.²⁹

A movement in favour of a European senate has thus emerged in Portugal. The tasks of this second chamber would be as follows³⁰ :

– legislative initiative (jointly with the first chamber)

– supervision beyond the Community sphere, in the areas of justice and home affairs and the common foreign and security policy

There are also people, in the CDS-PP for example, calling for nothing less than a "renationalisation" of the European Parliament, i.e. a return to the days

²⁷ The current education minister has, in particular, championed the idea of creating a second chamber of the European Parliament, inspired by the Ad Hoc Assembly of 1953, in the chapter "Cidadania e Instituições Europeias ou o Peso da História", in *Portugal no Centro da Europa* (Lisbon: Quetzal, 1995).

²⁸ Guilherme d'Oliveira Martins, "A Dúpla Legitimidade Europeia", *O Mundo em Português*, December 1999.

²⁹ *Diário de Notícias*, 12 December 1999.

³⁰ José Medeiros Ferreira, "Democratização e Igualdade na União Europeia", in *O Desafio Europeu: Passado, Presente e Futuro*, ed. João Carlos Espada (Cascais: Principia, 1998).

“when the European Parliament was not elected directly, but indirectly, through the national parliaments”.³¹ The first chamber, instead of having increased legitimacy as a representative of European citizens – viewed by some as essential – would be transformed de facto into a second chamber.

One of the most interesting aspects of the current debate is the recent observation that federalism is, all things considered, not as dangerous for the small and medium-size States as used to be thought. It could be an effective way of defending Portugal’s interests within the European Union, compared with a unitary Superstate or, worse still, a directorate of great powers. This idea was explained by the minister for foreign affairs, Jaime Gama, on the eve of the presidency, when he suggested that “a federal Europe would be fairer – a more balanced model than at present”.³² The final purpose is to defend the federal course against functional integrationists and pragmatic anti-federalists, who “manipulate the current Community mechanisms so well that they are opposed to the creation of any new body, such as a second chamber”.³³

Be that as it may, the debate on institutional reform is beginning, albeit tentatively, to develop into a genuine debate on making the European process more democratic. It is now clearly apparent to many in Portugal that changing the weighting of votes in the Council will not resolve the central issue of European integration, namely how to overcome the democratic deficit and establish a supranational democracy. Any reallocation of the weighting of votes, whether or not it is necessary, requires a redefinition of inter-State balances. Citizens of Europe will not feel any better or any worse represented if their country has two votes more or less in the Council. The intergovernmental conference in 2000 will, nevertheless, tackle the issue of democratic deficit only superficially. The Portuguese government does not consider itself in a position to start such a debate as it might give the impression of wanting to delay institutional reform and therefore postpone the enlargements, something it does not want to do. Yet some people do believe this issue should be put on the agenda of the 2000 IGC.

The government nevertheless thinks that it will be able to help bring the Union closer to citizens by taking the charter of fundamental rights forward. To achieve this end, the charter must not be simply a list with no binding force, but should be

³¹ *Público*, 31 May 1999.

³² Jaime Gama, interviewed in *Expresso*, 30 December 1999.

³³ José Medeiros Ferreira, *A Nova Era Europeia: de Genebra a Amsterdão* (Editorial Notícias, June 1999).

incorporated into the Treaty on European Union. It should draw on the catalogue of rights that the Court of Justice has established in exercising its responsibilities as a constitutional court, and on those proclaimed in the European Convention on Human Rights. One of the fundamental objectives of the next intergovernmental conference should be to strengthen the European Union as a body based on the rule of law for, as José Luís da Cruz Vilaça has pointed out, “on that depend its credibility in the eyes of European citizens and the outside world, and the acceptance of its rules and procedures on the part of the constitutional courts of the Member States and the international institutions devoted to protecting human rights”.³⁴

The government has also focused attention on the provisions introduced into the Treaty of Amsterdam in the chapter on human rights, in particular to combat all forms of discrimination.³⁵ The aim now is to further develop the Treaty on European Union in this area, inter alia by giving citizens a new means of access to Community justice in order to protect the rights already established and those yet to be incorporated into the treaty.

Economic and social cohesion: the European way

Because of the central place development occupies in Portugal’s concerns, the European Union’s economic and social cohesion policy has always been considered a priority. Initially, the viewpoint was eminently national – an approach shared by the other “cohesion countries”, notably Spain. Unlike other areas of European integration, the national consensus regarding cohesion and the degree of priority to attach to it was as wide-ranging as it could possibly be, uniting supporters and opponents of Europe, federalists and “intergovernmentalists”, alike.

In recent years, this national focus has broadened to accommodate a genuinely European view of cohesion. During the 1996 intergovernmental conference, the Socialist government of António Guterres supported the inclusion of employment on the Community agenda. As early as the European Council meeting in Madrid in December 1995, the newly-elected Portuguese prime minister insisted that

³⁴ See, in this connection, José Luís da Cruz Vilaça, “A Protecção dos Direitos dos Cidadãos no Espaço Comunitário”, in *Valores da Europa* (Cascais: Principia, 1999).

³⁵ For discussion in this area see, in particular, José Barros Moura, *Cidadania Europeia: uma Construção Racional* (Lisbon: Gradiva, Cadernos Democráticos, May 1999); and Pedro Bacelar de Vasconcelos, “Contra a Discriminação e Xenofobia”, *Valores da Europa – Identidade e Legitimidade*, (op. cit.).

employment should henceforth count as one of the EU's concerns. Since then, by his own admission, he has encouraged Portugal to "lead the fight for employment in Europe".³⁶

António Guterres's initiative advocates a proactive approach to employment and the fight against social exclusion, through a combination of vocational training and public investment. The latter would no longer be primarily devoted to major works and infrastructure, but would be directed towards the new technologies of the information era; in other words, it would obey a form of neo-Keynesian approach adapted to the age of knowledge and innovation. The purpose would be to return to the great objectives of Jacques Delors' 1993 White Paper on growth, competitiveness and employment, but in new terms and with new priorities.

António Guterres wants to bring to the debate on employment and economic models his own vision of the effects of globalisation, which he says is generating a dualisation of society and must be brought under control. The aim is to promote the "European way", to use an expression of Teresa de Sousa, the way of economic and social cohesion, as a compromise between Tony Blair's "third way" and the "welfarist" viewpoint of Lionel Jospin. Controlling globalisation requires a "consolidation of the global regulatory institutions, the creation of politically integrated blocs rather than simple free-trade areas, and strong inter-regional cooperation".³⁷ Seen from this angle, globalisation does not appear primarily as a threat, but as an opportunity which Europe must make the most of.

To promote this policy, an extraordinary summit was held during the Portuguese presidency with the aim of launching a common strategy to make the European economy the world's most dynamic and competitive within ten years while promoting growth, employment and social cohesion. Some people think this bold gamble is no more than a grand talking shop for the benefit of the media. It was, however, the first major Portuguese initiative at European level. If it succeeds, it would make the Portuguese presidency an important point of reference and would help change the way the Portuguese see their role in Europe.

³⁶ António Guterres, *Visão Estratégica da Política Externa Portuguesa com Relevância para a Construção Europeia*, contribution to the monthly debate in the Portuguese parliament, 8 April 1999.

³⁷ Prime minister's contribution to the parliamentary debate on ratification of the Treaty of Amsterdam, transcribed at the Committee on European Affairs, *Amsterdam: A New Treaty for Europe* (Lisbon: National Assembly, 1999), p.227.

António Guterres's "European way" stems from the observation that the European model is based on the idea of a welfare State; in other words, that there is a social model serving as basic template for the European integration process. For the proponents of this thesis, accepting the north-American model of deregulation and downsizing would endanger the integration process itself.

The challenge of identifying active employment policies at European level is also a consequence of European economic and monetary integration. On the one hand, the macroeconomic convergence imposed by participation in EMU restrains States' ability to invest. On the other, the dynamics of the internal market make it more difficult for an isolated State to implement effective employment policies.

While Portugal, in setting employment as a priority, is showing that it is not restricting itself to a selfish agenda, it is also true that – in spite of a relatively low unemployment rate (8.6% in 1986, 4.1% in 1992, 5% estimated for 2000), which in the late 1990s fell almost to half the EU average – Portugal could face serious problems in this area in the future. The textile industry employs a substantial proportion of Portuguese labour (with the textile, clothing and footwear sector accounting for about 30% of the country's exports and 32% of industrial production). Over two-thirds (nearly 70%) of textile output is of low quality and will be protected from international competition only up to 2004, during the period of transition under the Marrakesh compromise. After that period, the unemployment issue will become a lot more pressing if the necessary retraining and resettlement of workers is not undertaken in time. Portugal furthermore has a high rate of long-term unemployment (45.3% of total unemployment in 1998) and notorious shortages in terms of vocational training. The Portuguese government is therefore promoting employment creation rather than the fight against unemployment, and has introduced the concept of employability, understood as labour's capacity for inter-sectoral mobility, as adopted at the November 1997 extraordinary Council meeting in Luxembourg.

António Guterres's initiative has replaced the strict defence of national interests, which long constituted Portugal's "European" foreign policy, with the idea that Europe's interests and those of Portugal are indissociable: in a word, that what is good for Europe is good for Portugal. Domestically, the priority accorded to employment has not met with unanimous approval, particularly since the financial perspectives for 2000-2006 were being discussed in the context of Agenda 2000. During the ratification process of the Treaty of Amsterdam, Durão Barroso con-

demned as unwelcome the fact that the government should "give importance to and boast about incorporating a specific title on employment into the treaty. The Portuguese stance has always been, and should continue to be, to stress economic and social cohesion".³⁸ The point of view expressed by the former minister for foreign affairs and current PSD leader quickly gained support, in particular among a number of experts on European issues who were concerned by the effects such a policy could have on Portugal's position in the negotiations in progress. António Guterres retorted that a consistent stance strengthened Portugal's negotiating power. A government that did not emphasise the priority to be accorded to employment would have no moral authority or "credibility in also defending the significance and priority to be given to economic and social cohesion".³⁹ Nevertheless, the fact that unemployment could be a criterion influencing Structural Fund allocations under Agenda 2000 did cause the government some concern. This turned out to be unjustified, however, since the criterion of national prosperity remained the most important factor for the distribution of funds between the regions of the various countries. The Agenda 2000 outcome was ultimately accepted by all political tendencies and by most experts.

The debate on Portugal's best strategy to ensure sustained economic and social cohesion leads us to the question of the impact that enlargement could have on the country's future in the Union. An end to "European funds" seems likely on account of the need for the European Union to begin focusing significant resources on supporting the new democracies of central and eastern Europe. Enlargement will, according to some experts, have an adverse effect in the following areas: trade competition, particularly in the case of industrial products; relocation in central and eastern Europe of industrial firms hitherto established in Portugal; and a redirection of investment flows. The question of free movement for workers does not arise in the case of Portugal on account of the distances involved. According to a study written by a group of economists at the Higher Institute of Economics and Management: "It can be expected that with complete freedom for products from the central and eastern European countries to enter the EU markets, and with the industrial recovery in progress in those countries, three events will occur. First, competition in the clothing subsector will intensify in the markets of Germany, Sweden, Finland and Austria. Secondly, Portugal's

³⁸ Durão Barroso, *Uma Certa Ideia de Europa* (Lisbon: Gradiva, 1999), p. 55.

³⁹ Prime minister's contribution to the parliamentary debate on ratification of the Treaty of Amsterdam, (*op. cit.*), p.230.

position will come under threat in the other EU countries, which will have hitherto been little affected. Thirdly, the textile subsector – which up to now has been relatively unscathed – will also suffer a severe blow from the new competitors, especially as the central and eastern European countries' industrial sectors attain advanced degrees of industrial renovation".⁴⁰

It would, however, be improper for Portugal not to back strategic support for the consolidation of democracy in the central and eastern European countries, since this involves, in the words of Teresa de Sousa, "extending to the whole continent of Europe the peace, democracy and prosperity that the Community has acquired".⁴¹ The arguments put forward by the new applicants are precisely those used by Portugal to convince the Community of the time of the merits of its own case for joining. Accordingly, the government and the representatives of the pro-European tendency abstained, at least publicly, from linking support for enlargement to the successful outcome of Agenda 2000.

The new applicants' level of development puts them in a similar position to Portugal. The division in Europe is now, according to some observers, between rich and poor countries. The rich countries are numerous, however, and the poor ones are relatively few, Portugal being one of them. According to Francisco Seixas da Costa, the enlargements will result in a shift of the balance between the rich and poor countries, with consequences in the legislative area that will be helpful to Portugal.⁴²

The aim of an open Europe

One of the most persistent external policy issues among political and intellectual elites is how European integration affects Portugal's relations with countries outside Europe and with its closest neighbours, both within and outside Europe. There are two main aspects to the debate: first, the impact of Community membership on relations with Portuguese-speaking areas; second, how European economic integration combines with security and defence.

⁴⁰ Avelino de Jesus, Joaquim Ramos Silva and Carlos Barros, *O Impacto sobre Portugal do Alargamento da União Europeia aos PECO* (Lisbon: ISEG, September 1998, duplicated).

⁴¹ Teresa de Sousa, "Uma União à Dimensão do Continente", in *Portugal no Centro da Europa* (Lisbon: Quetzal, 1995).

⁴² Francisco Seixas da Costa, interviewed in *Público*, 5 January 2000.

Europe and the Atlantic

Prior to membership of the European Community, the question of whether or not to opt for Europe was presented by the integrationists as being a straight choice between Europe and the Atlantic. Joaquim Barradas de Carvalho stated it clearly in the following terms: "If we head for Europe (...), the economy of large areas will create a unified Iberian peninsula" and Portugal would again lose its independence.⁴³

To this historian close to the PCP, the Atlantic meant first of all Brazil, but also Portuguese-speaking Africa. This viewpoint was also (and is still) that of the traditional right, for whom joining Europe implied breaking with the traditional Atlantic outlook which was part of the country's identity. What is called Portugal's Atlantism is not limited to the Portuguese-speaking world. Instead, it implies, in geostrategic terms, a preferential alliance with the dominant maritime power – formerly the United Kingdom and now the United States – and a refusal to get directly involved in continental conflicts or even in the policy towards the Mediterranean.

The false dichotomy between Europe and the Atlantic was resolved in favour of integration, and the idea finally caught on, backed up by powerful arguments of practical politics (East Timor being, from this point of view, a textbook case), that participation in the European Union, far from being incompatible with or even damaging Portugal's foreign policy interests outside Europe, increased the scope and weight of the country's foreign relations without even excluding the bilateral economic field. Participation in the European Union is currently seen as contributing greatly to strengthening Portugal's relations with Portuguese-speaking countries. It is now clear that Portugal's weight on the international stage is out of proportion to its size as a nation.⁴⁴

Portuguese-speaking Africa was chosen, in the first stage of integration, as the main priority as far as foreign policy at European level was concerned. Portugal opted for the development portfolio in the European Commission. This was entrusted to João de Deus Pinheiro, who up to then had been minister of foreign affairs. The choice coincided perfectly with the almost exclusively African (95%) orientation of development cooperation. It proved crucial in helping the five Portuguese-speaking countries in Africa (Angola, Cape Verde, Guinea-Bissau, Mo-

⁴³ Joaquim Barradas de Carvalho, *Rumo de Portugal. A Europa ou o Atlântico?* (Lisbon: Livros Horizonte, 2nd edn, 1982). This book was written in March and April 1974, in Paris.

⁴⁴ Mário Soares, *Intervenções* – 8 (Lisbon: INCM, April 1994), p. 162.

zambique and São Tomé e Príncipe) to form a group with its own identity for the purposes of the European Union's development policy, in spite of their not being geographically contiguous. One cannot help noting that Europe has not contributed significantly to resolving the problems of Portugal's former colonies. In particular, little has been done to help end the civil war in Angola, which despite acquiring the proportions of a humanitarian disaster has attracted virtually no reaction on the part of the international community.

Relations with Brazil had long been firm on an emotional and cultural level but lacking in economic and political substance. The relationship has undergone remarkable improvement, in particular from 1995 onwards. The fact that Portugal is a member of the European Union is important for Brazil, which also sees Portugal as an ally in its interregional relations. Like Spain, Portugal has played an important role in expanding relations between the European Union and Latin America, in particular Brazil and the Mercosur. On the eve of the completion of the single market, Brazil made some investments in Portugal – mainly business acquisitions – with the clear objective of gaining a foothold on the European market. After a delay of a few years, the trend in the opposite direction has also markedly increased. Since 1996, Portugal's investments in Brazil have grown exponentially to account for an unusually large share of the country's direct foreign investment. In the period 1996–1998, Portugal was the fourth-largest European investor in Brazil (fifth-largest worldwide). During those three years, Brazil was the main destination for Portuguese direct foreign investment (exceeding all investments in the European Union in two of the years).

The positive impact of Portugal's EU membership as regards relations with third countries, including in the multilateral sphere, is particularly obvious in the case of East Timor. Portugal had succeeded, in spite of initial opposition from most of its fellow members of the Community, in putting East Timor on the common foreign and security policy agenda, firstly as a human rights issue, and – after the fall of the Suharto regime – in terms of the right of the Timorese to self-determination. In 1986, East Timor was a not European political issue and had almost ceased to be one at international level. It is now the subject of a common position (June 1996) and a Council declaration (June 1998), asserting that a "there can be no definitive solution to the East Timor issue without free consultation of the population to determine its true will": explicit support for the referendum solution that Indonesia was not to accept until January 1999.

Joining the European Union resulted in a radical change in relations with Spain, establishing a climate of mutual trust and unprecedented scope for collaboration. Portugal shares major European policy objectives with Spain, not only in championing economic and social cohesion, but also in the opening up of Europe to Latin America and the Mediterranean. The revolution in their bilateral relationship – evident in the economic area from the first days that the two Iberian countries were members – has made it the field of Portuguese foreign policy “which has most benefited from European integration”.⁴⁵ Filling the artificial vacuum caused by a supposed feeling of vulnerability to the powerful neighbour, roads, bridges and joint business ventures have developed at a steady pace.

After its accession, Portugal included the Mediterranean in its foreign policy programme – for the first time in centuries – as part of a markedly European approach. The Mediterranean is undoubtedly an foreign policy area which Portugal has taken an interest in further to its accession, as can be seen from its place on the agenda of the Portuguese presidency of 2000. Portugal has found that the geographer Orlando Ribeiro was right in claiming that, while Portugal was an Atlantic country by its geographical position, it was by its appearance and nature a Mediterranean country.⁴⁶

Portuguese politicians have developed their own view of the Community's foreign affairs and on championing an open Europe, with the enormous diversity of its members' foreign relationships considered an asset for a Europe which is open not only to the centre and east of the continent but also to the south. The former prime minister Cavaco Silva called this two-fronted approach the “east-south balance”, in so far as the south was seen as a foreign relations priority for Portugal and the other countries of southern Europe, and eastern Europe as a priority essentially for the countries of the north and centre.⁴⁷ The attention given to European Union relations with Latin America, notably the Mercosur, was a particular feature of the 1992 Portuguese presidency. Vítor Martins, at the time junior minister for European integration, observed in this respect that “deepening of integration and opening up to the outside world are parallel roads”.⁴⁸

⁴⁵ Francisco Seixas da Costa, “A Europa e a Política Externa Portuguesa”, *Política Internacional*, 20, autumn-winter 1999.

⁴⁶ Orlando Ribeiro, *Portugal, o Mediterrâneo e o Atlântico* (Lisbon: Sá da Costa, 1983).

⁴⁷ See Aníbal Cavaco Silva, *Afirmar Portugal no Mundo*, (Lisbon: INCM, 1993).

⁴⁸ See Vítor Martins, “A Vocação Universal da Comunidade Europeia”, in *A Europa Após Maastricht* (Lisbon: INCM, 1992).

Looking at the diversity of Portugal's external interests, it can be concluded that the more the European Union has an active and comprehensive foreign policy, the more Portugal will feel that its interests are protected by the Union and that it can contribute to shaping this policy.

Security and defence

The Atlanticist geopolitical movement, which has lost virtually all influence over domestic policy (save for some marginal traces in certain areas), has nevertheless retained some weight in security and defence matters and, to this extent, in some aspects of foreign policy.

The significance of the movement explains the position that Portugal had adopted for years vis-à-vis a European defence policy: a mixture of scepticism and reliance on the alliance with the United States, with which Portugal has had a bilateral defence agreement since 1951. The scope of this agreement is now restricted essentially to the conditions for use of the Lajes base in the Azores.

What the democratic leaders wanted was to highlight Portugal's specific position in a field where the country had little influence and enhance the geostrategic relationship with the United States. This is why Portugal followed the United Kingdom in opposing EU advances in the defence area during the 1991 intergovernmental conference. Over the following years, Portugal continued to observe a cautious position. A change regarding defence policy was already perceptible in the document submitted to the 1996 IGC, which called for “eventual integration of the WEU into the European Union” while considering the “creation of a 4th pillar devoted to defence” to be premature.⁴⁹ In this area, the document reflected a compromise between the pro-European and Atlanticist approaches. The latter was abandoned only at the end of the 1996 IGC, when Portugal unequivocally accepted the integration of the WEU into the European Union. Jointly supported by the PS and the PSD, the WEU move is still opposed by die-hard Atlanticists and the PCP, who feel that the WEU should not be converted into the defence arm of the European Union or into another politico-military bloc and accept only the principle of a common security policy governed by the OSCE.⁵⁰

⁴⁹ *Portugal e a Conferência Intergovernamental para a Revisão do Tratado da União Europeia* (Lisbon: Ministry of Foreign Affairs, March 1996).

⁵⁰ Statements of Ilda Figueiredo, MEP, chief PCP candidate in 1999, quoted in *Público*, 25 April 1999.

One of the tenets of anti-Europeanism in the security sphere is that Portugal should not get involved in "continental" conflicts. This view, which underlines the peripheral situation of Portugal, as if the country were distant from and outside the European mainland (indeed, some military descriptions of Portugal suggest the country is not merely maritime but a sort of archipelago), carries some weight in European political quarters and finds an echo in public attitudes. It has taken some time for people to realise the domestic consequences of the new attitude towards political Europe and Portugal's military involvement in European security issues. These were aptly illustrated by the "Angola or Bosnia" dilemma regarding the priorities for military intervention: the Portuguese-speaking world or Europe?

The first government member to state clearly that the priority was Bosnia rather than Angola was J. M. Durão Barroso, then foreign affairs minister. When asked whether Portugal had more interests at stake in Bosnia or Angola, he replied without hesitation: "in Europe and in the European Union".⁵¹ The Portuguese democracy had realised that – despite of the importance of relations with Portuguese-speaking countries – the consolidation of democracy and resolution of conflicts in central Europe and the Balkans was fundamental for the future of the European Union and thus for Portugal. As first indication of this commitment, Portugal declared itself ready to make a "solidarity participation", as A. J. Figueiredo Lopes, the then defence minister called it⁵², to the planned Forpro-nu extraction operation.

It was the next, PS, government that had to decide on Portugal's participation in IFOR and, later SFOR, in application of the Dayton agreements. Portugal sent a 932-member battalion of the BAI (Independent Airborne Brigade). In spite of the disparity of opinions expressed in surveys, this decision was enthusiastically supported by the Portuguese.⁵³ Public support for participation in IFOR continued, with slight fluctuations, even after two Portuguese soldiers died in an accident.

The choice of a sizeable contingent, and of a combat unit rather than a support unit, reflected a desire to make a high-profile contribution to IFOR. The government based its decision mainly on the need to assume the country's full responsibilities as a member of the European Union and Atlantic Alliance. This

⁵¹ See interview given to *Público*, 9 January 1994.

⁵² A. J. Figueiredo Lopes, *Público*, 25 June 1995.

⁵³ In the survey carried out at the request of the Ministry of Defence in 1995, 63.6% of those questioned said that Portugal should be present and only 18.3% were against; the rest did not know.

was an act of solidarity towards the Allies, but also and especially "towards the sacrificed people of Bosnia", as the prime minister put it. Portugal took part in military operations in Bosnia because it felt European issues were of direct concern and was determined to play an active role in building a democratic and stable Europe. António Vitorino, defence minister at the time, put forward three reasons – credibility, solidarity and national interest – to explain this commitment to the "political development of the area to which we naturally belong: Europe".⁵⁴ The intervention received the clear support of the country's then President, Mário Soares, and of the main opposition party, the PSD. The PP, after maintaining an ambiguous position, ended up supporting the dispatch of troops, emphasising that it was doing so because it had been proved that the step would not jeopardise the country's military presence in Africa. The PCP, which has maintained a pro-Belgrade position throughout the Yugoslav crisis, opposed intervention, considering that "in Bosnia, there were no Portuguese interests to be defended".⁵⁵

Portugal's military participation in Bosnia is an important stage in the "Europeanisation" of the country's defence policy. This intervention, the first by armed forces on the European continent since the first world war, was an apparently unequivocal sign that Portugal's commitment to Europe included the field of security. The Kosovo crisis, however, confused the situation and led to a certain distancing from European security problems, notably in the Balkans. It was to show that the fear of radical nationalism (even in the form of Communist nationalism) was outweighed by the absolute need to defend Portuguese sovereignty. According to one published survey, 63.7% of the Portuguese opposed the intervention in April⁵⁶ (while another showed 51% in June).⁵⁷ This position can be partly explained by the enormous split the question produced among Portuguese intellectuals.

The issue of defending international legality, which was subject to the Russian veto, was confused in many cases with defending Serbian sovereignty, without the question of how to stop the mass deportation and genocide even being posed. This attitude was prompted in a few rare cases by sympathy for Serbia and to some extent by alarm at the excessive dominance of the United States in the

⁵⁴ António Vitorino, *O processo de Política de Defesa Nacional*, MDN, 1996.

⁵⁵ João Amaral, *Expresso*, 25 November 1995.

⁵⁶ Opinion poll by the Universidade Católica, *Público*, 1 April 1999.

⁵⁷ IPSOS survey for *Libération* and *Diário de Notícias*, 2 June 1999.

post-Cold War international order, but mostly by a nationalist instinct and ignorance about the Balkans. The opinions expressed in newspaper articles reflected an incoherent pro-European stance as well as anti-European anti-Americanism and pro-European anti-Americanism. The pro-European left-wing currents, which included Mário Soares, considered that the allied intervention in Kosovo set "a very dangerous precedent" and argued that there was a need for a European defence policy to ensure that Europe would cease being subject to American hegemony. For Eduardo Lourenço, the intervention in Kosovo was "the hardest blow ever to be dealt to the dream of a united Europe".⁵⁸

The involvement in the Kosovo conflict, with a smaller military dimension, was viewed by many of its supporters as stemming from the country's obligations as a member of the European Union and NATO: an obligation of "solidarity". The intervention in Bosnia had been seen very differently, as defending Portugal's vital interest in stability in the Balkans. Only marginally was it perceived as contributing to the security of the European Union and thus to our security. In parliament, only the PCP openly condemned the NATO intervention. The President, the government and the opposition parties that backed Portuguese participation in the allied operation against Serbia observed, overall, a restrained attitude which contrasted with the rather lively public debate. The strictly military aspect of Portugal's participation was discreet, as it had been reduced to three F16 aircraft which were given patrol and escort responsibilities rather than raiding missions.

The "Angola or Bosnia" debate resurfaced in 1999 in the form of "Kosovo, Angola or Timor?". In the opinion of the former prime minister Cavaco Silva, Portugal had to invoke the "outside Europe" argument "so as not to commit excessive forces in these theatres of war [the Balkans], as the country had other areas to worry about, namely Timor on the one hand and Africa on the other".⁵⁹

The movement in favour of intervention to defend human rights was clearly in a minority, both within the press and public opinion in general. Its arguments focused on promoting the European values of humanitarian intervention and of freedom of assembly and association, democracy and human rights, in opposition to extreme nationalism.⁶⁰

⁵⁸ Eduardo Lourenço, "Suicidária Europa", *Público*, 28 March 1999.

⁵⁹ *Público*, 10 April 1999.

⁶⁰ See Álvaro de Vasconcelos, Carlos Gaspar, Guilherme d'Oliveira Martins, Nuno Severiano Teixeira and Teresa de Sousa, "Em defesa dos valores europeus", *Público*, 5 May 1999.

In fact, while reactions to the Kosovo crisis showed that the post-nationalist current of thought championing human intervention in the name of the absolute supremacy of the fundamental rights of citizens did not garner as much support as the "groundswell" demanding military intervention in East Timor would have suggested, this was partly due to the fact that the overwhelming majority of intellectuals denounced NATO's operation against Serbia as an act of pure submission to the diktats from Washington. Additional support thus emerged for an autonomous European defence force and an independent European voice within NATO.

During the campaign for the European elections in 1999, Mário Soares proposed the introduction of a European tax, notably with the idea of establishing European armed forces. Although this idea was not endorsed by the major parties (the PS and PSD), it was seen by the pro-European left as a way of giving Europe more autonomy vis-à-vis the United States. The logic of the European defence policy was no longer to face the specific challenges to EU security, but to consolidate one pole of a multipolar world in order to counter American hegemony.

In spite of the different interpretations of the Bosnia and Kosovo issue, Portuguese defence policy began to recognise that, on account of Portugal's membership of the European Union and NATO, as observed by Nuno Severiano Teixeira, the country's security border no longer coincided with its geographical border, and that Portugal's strategic interests – while still embracing the Atlantic – now also included Europe and its southern fringe, thus making the Balkans an area of interest to Portugal.⁶¹

Conclusion

Portugal is generally considered to be a European integration success story. Over the last 14 years democracy has become consolidated, the sense that Portugal was marginal in Europe is being overcome, and Portugal has taken advantage of integration to give greater substance to its relations with other Portuguese speaking countries, particularly with Brazil. Relations with neighbouring Spain have changed dramatically. Mistrust has been replaced by convergence on most issues. From an economic and social point of view, Portugal is a more modern and socially

⁶¹ Nuno Severiano Teixeira, "Das Campanhas de Guerra às Operações de Paz: as Intervenções Militares Portuguesas em Teatro Europeu", *Estratégia*, 14, Jul.-Dec. 1999.

cohesive country today, although it still faces serious problems of social exclusion. It is a country that managed to make quite effective use of European cohesion funds. These positive developments are partly a result of the transition from a dictatorial regime to a democracy. Nonetheless, European integration has undoubtedly proved to be a strong stimulus to modernisation.

From an institutional perspective Portugal has acquired an image as a country that defends the balance of power among Member States that it supported when it adhered to European integration. However, it also understands that its weight within the Union depends above all on its ability to remain at the heart of the construction of the integration process, participating in all developments and taking full responsibility as a Member State.

Two important moments in this story have been the Portuguese presidencies, the first in 1992 during the difficult post-Maastricht referendum period, and the second in 2000, which was complicated by the Austrian question. During the first presidency the Portuguese discovered Europe, most notably political Europe; during the second, the Union discovered Portugal.

During these years a Portuguese vision of Europe has evolved; it is one of a socially cohesive Europe open to the outside world, namely Africa and Latin America, and strongly allied with the United States as far as security is concerned. The Portuguese have gradually come to understand that they cannot remain indifferent to the problems of Central and Eastern Europe. In this respect, Portugal's military participation in IFOR and SFOR in Bosnia was the definitive point of rupture.

The Portuguese experience leaves one with the conviction that *inclusion* is the essential means for the Union to contribute to democracy and peace in the continent, and that it is with this point in mind that the widening of the Union must be faced. However, one can and must also conclude that new Member States should fully accept the *acquis* of the Union to ensure the success of their accession.

Democratic Transition in Portugal and the Enlargement of the European Union

Mário Soares

Portugal has been a full member of the European Economic Community (EEC), today the European Union, since 1 January 1986, after the signature of the Accession Treaty, which I had the honour to undersign, on 12 June 1985.

Both Portugal and Spain – and the latter signed the Accession Treaty and joined the EEC on precisely the same date – became members of what was then known as the “Europe of the 12”. The two Iberian countries had managed to free themselves successfully in the mid-seventies of the dictatorships that had oppressed them for several decades, and with equal success had managed to establish democratic, pluralist regimes.

Portugal was a pioneer in the processes of democratic transition that occurred in the South of Europe after 1974 – first in Portugal, then in Greece and Spain – and which then began to take place in several Latin American countries from the start of the eighties. The changes that began in central and eastern Europe from 1989 on led, essentially, to the collapse of the communist regime, symbolised by the fall of the Berlin Wall. But these political, economic, social and cultural realities are quite distinct and vary considerably. The three southern European countries suffered the rule of right-wing dictatorships (in the case of Greece it was military dictatorship), while the countries of central and eastern Europe suffered communist rule as laid down by the Soviet Union.

In the South of Europe, Portugal was the first of the three above-mentioned countries to introduce the process of democratic change. The revolution on 25 April

1974 brought about the collapse of the former regime, an old, retrograde dictatorship that took control on 28 May 1926, and which had become bogged down since the start of the sixties in a meaningless colonial war with no military solution. Greece was next, when the dictatorship of the Colonels came to an end in July 1974, but here the process of democratisation was quite different. Finally, the process of transition to democracy began in Spain with the death of the dictator, Franco, in November 1975. The transition there lasted for two years, and was highly influenced by the Portuguese experience.

Apart from the proximity of Portugal and Spain, and the fact that their respective histories almost always developed in parallel, the conditions in which democratic change took place in the two countries were very different. In Portugal, there was a complete break with the past, that is there was a true revolution. In Spain, the transition was pacific, that is there was no true break with the past, or power vacuum. The transition in Portugal was abrupt, with the pure and simple elimination of the "Estado Novo". The transition in Spain evolved over time and took place under the monarchy, since Franco's dictatorship ended up in a monarchy.

The political regimes of Salazar and Franco were, essentially two out-dated dictatorships. They were not exactly fascist or Nazi dictatorships, like those in Italy or Germany. They were above all forms of extreme conservatism, authoritarian regimes highly influenced by Catholicism and by a certain anti-progress provincialism. The two Iberian dictatorships, principally that of Salazar, never encouraged nor gained the support of major mass movements, characterised by solid social demagoguery and almost military discipline, as was the case in Mussolini's Italy and Hitler's Germany. Whatever the case, the out-dated dictatorships of Salazar and Franco were completely drained, and apparently condemned at the end of the Second World War. But both had been saved thanks to the complicity of the western democracies, particularly the British and North American. Out of convenience and political advantage they decided to close their eyes to the harsh realities of the Iberian Peninsula, viewing the world as divided into two opposing blocs at a time when the "cold war" was about to begin.

In 1945-46 the Portuguese democrats were deeply convinced that the regime, which under Salazar was known as the "Estado Novo", was irremediably condemned and unable to survive. At this time, although still very young, I was already active politically in condemning the regime and I preached this conviction. But from 1947-48, with the start of the "cold war", we began to have doubts, and from 1949 we realised clearly that the regimes of Salazar and Franco had been saved by the so-

called western democracies. The two Iberian dictatorships survived thanks to insignificant and purely formal concessions which in no way altered the essence of both regimes. Out of fear of communism, the complicity of the western democratic countries became permanent, to the point of admitting Portugal as a founding member of NATO, which was supposed to be an organisation of democratic States for the defence of freedom. It was a strategic mistake – more than just that, a political crime – committed by the western democracies, and that can be neither forgotten nor forgiven.

Developments in Greece were very different. The process was more democratic, contradictory and complex. During the Second World War, Greece suffered first Italian and then German occupation. The process of liberation was similar to that of Yugoslavia and, immediately after, there was an attempt to set up a Communist state in Greece, as in other countries in eastern Europe. This was the attempt made by ELAS in 1944, followed a short time later by the British landing, and talks between Churchill and Stalin, the former claiming that Greece was part of the West and not part of eastern Europe. Following the Potsdam conference, civil war broke out, in which the Greek Communist leader, General Markos, was supported by Bulgaria and, above all, by Tito's Yugoslavia. The state of civil war was highly confused and, by 1949 it was hard to say whether Greece would fall to the side of the western democracies, or to the side of the Soviet empire. Greece was saved finally from being behind the so-called "iron curtain", to a great extent because of the breakdown in relations between Tito and Stalin in 1948. After this breakdown, Markos was no longer supported by the Yugoslavs and the conditions were created for a return to democracy. Between 1949 and 1967, the democratic regime in Greece worked badly and suffered from very complex problems. The "dictatorship of the colonels" only took over in 1967. The Greek political process was, therefore, entirely different to the Spanish and Portuguese processes. The Portuguese dictatorship lasted for the longest time, from 1926 to 1974. The Greek dictatorship was the shortest. In 1974, it was the Colonels themselves who, having embarked on a military venture in Cyprus, had to call Constantino Karamanlis in quickly, at the time exiled in France, to re-establish democracy in his country. This whole experience was different to those of the Iberian states.

However, the three processes do have some aspects in common, which are important for the experience currently being faced by several central and eastern European countries. Firstly, despite the dictatorships, there was always a market

economy in Portugal, Spain and Greece. These three countries were always linked to the international economy: they were members of the OECD, they had relations with the World Bank and with the IMF. After a certain time Portugal even became part of EFTA. Another feature of the authoritarian dictatorships of western Europe that distinguishes them from the totalitarian dictatorships of eastern Europe is that although the former did not have fundamental political liberties, there were some civil liberties, that is, citizens submitted to these authoritarian dictatorships were not totally dependent on the State, nor were they the slaves of that State, and they had, for example, the right to travel abroad, to emigrate, even if they were politicians opposing the regime. I quote my own example: I was recognised as being decidedly in opposition to the regime and was, therefore, the target of discrimination – I could not compete for a position in the civil service and I was imprisoned on more than one occasion – but I was able to practise as a lawyer, earn a living and, although after a time my passport was withdrawn, there were other periods when I could travel abroad like everyone else. In fact, in Greece as in Portugal and Spain, emigration was always a powerful social safety valve. The major migratory movements in the sixties and seventies, benefiting from the great surge in development in western Europe, are proof of this. The remittances sent back by emigrants to their families were, indeed, a true safety valve against social explosion, which would have been inevitable without this migration. But the three authoritarian dictatorships have a third feature in common: despite these political regimes, the three countries had effective, solid ties with the western military defence system and collective security. Portugal and Greece were members of NATO. Spain was not a member of the organisation but was part of a treaty for military cooperation with the USA, which compensated for the fact that the country was not militarily integrated in NATO.

There is another important historic distinction to be made. Portugal and Greece had suffered communist attempts to take over power at very different times – Greece between 1946 and 1949, Portugal in 1975. Spain had been vaccinated against communism during the civil war, between 1936 and 1939, and since then the Communists had not taken up the offensive. In fact, while the Portuguese and Greek communist parties were strongly Stalinist and were closely linked to the Soviet regime, the Spanish Communist Party, at the time led by Santiago Carrillo, in the aftermath of the civil war and due to the fact that Stalin had many of the Communists that took part in it eliminated, put up considerable resistance to Stalinism and became a Euro-communist party from the start, similar to the Italian Communist Party, although the experience of Euro-communism ended in failure.

“Euro-communism” stood for criticism of totalitarian solutions, particularly from the end of the seventies, when the transitions to democracy had been made and dictatorship had disappeared from western Europe.

Of all these processes for transition to democracy, the Portuguese process was the most illustrative and the one from which the most positive inferences can be drawn for today’s times. And indeed it did influence the transition in Spain. All Spaniards recognise that without the errors committed in Portugal in 1975, democratic transition in Spain would not have been so easy and so peaceful.

The exemplary nature of the Portuguese case is due, first of all, to the circumstance of Portugal being a colonial empire – it was the first to be established in Africa and in the East, in the fifteenth and sixteenth centuries, and the last to disappear. This is a unique and very interesting feature which should not be overlooked. In fact, the dictatorship of Marcelo Caetano, Salazar’s successor, was brought down by a typically military revolution and it was the colonial war, already underway for 13 years, that gave weight to it. It was a hard war, and some of the military were being commissioned for a third, fourth or even fifth time to do service in Africa. They had no wish to die an inglorious death in a war with no military solution in sight. They had realised precisely this – there was no military solution – and since dictatorial power had proved incapable of finding a political solution to the colonial wars – because it refused any form of dialogue and would not agree to the principle of the right of colonised peoples to self-determination – the Portuguese military brought about the revolution with the main aim of ending the colonial war. To me it is obvious that it was this idea that motivated and explains the 25 April. Unfortunately, the end of the war and the acceptance of the principle of decolonisation occurred in Portugal 15 years too late, at least when comparing with the decolonisation conducted by France and Great Britain. It was clear, to those with a thorough understanding of what was happening in the world, that Portugal could not continue with the empire – as the followers of Salazar and later Marcelo Caetano wanted – after the French and British colonial empires had been completely broken up, in the significant decolonisation movement of the sixties.

Furthermore, Portugal suffered an attempt by the Communists to gain control. In 1974, when the dictatorship collapsed, there were only two underground political parties of any importance. One party that was solidly-based and well organised was the Portuguese Communist Party (PCP), founded in 1921, and that underground had survived the Fascist dictatorship well, and shown considerable courage (and it

must be remembered that the Communists in Portugal, contrary to what happened in the eastern countries, were not the persecutors, but the persecuted, spent many years in prison and this gave them tremendous moral authority immediately following 25 April). The other party was the Socialist Party (PS), which was democratic and pluralist, and was the result of the change made to the "Acção Socialista Portuguesa" (ASP), founded in 1964. This was above all a movement of political staff and intellectuals that in view of the imminent fall of the dictatorship, became the Socialist Party. This came about in a congress held in Germany on 19 April 1973, with the support of the German Social Democratic Party (SPD).

In 1974, the Socialist Party had a development strategy for the country, that involved gradual decolonisation, controlled to avoid further wars, consolidation of a pluralist democracy and the accession of Portugal to the European Economic Community – from the time of the first legislative elections held in freedom, the slogan of the PS was "Europe with us". The Portuguese Communist Party had a strategy for gaining control that was the exact opposite of the PS. The PCP wanted to have what the Communists called "a revolution economy" (they had in mind the example of St. Petersburg in 1917) and aimed to move directly to a system of "people's democracy" type. For the PCP, the ideal situation was to change Portugal into a kind of European Cuba. A scheme was designed, using the people-based economy model, the same used in the eastern European states, and decolonisation was to be used to get the USSR into Africa as a major power and subsequently to submit the new independent African countries to Soviet imperial rule.

This, in short, was the major contradiction between the two main left-wing parties in Portugal, but the country was not immediately aware of this. Immediately after 25 April, the military who were part of the Armed Forces Movement (Movimento das Forças Armadas – MFA) had a sketchy idea of what they should do. They wanted to put an end to the colonial wars, of course, but they did not know how to do this. Apart from decolonisation they had the vague idea of wanting democracy and development – it was politics based on the "three Ds": decolonise, democratise and develop – but they did not know how to achieve this. They made an appeal to the political forces and set up a "provisional government", that had neither consistency nor cohesion, in which every member did more or less as they pleased, striving for what they felt most correct for the country. But it was quickly found that there was a dividing line, or water shed, between those who did indeed want to pursue pluralist democracy and a relatively controlled process of decolonisation, and those who aimed, as they put it themselves, at that "revolution economy" moving directly onto the next phase, that is, a Soviet inspired "people's democracy".

Interestingly, Europe hailed the Portuguese revolution with extraordinary enthusiasm. For the first time, after so many failures and false starts to democracy in the world, here was a country in Europe throwing off a dictatorship! Two months later, it was the turn of Greece when an end came to the "dictatorship of the Colonels". A kind of euphoria reigned throughout Europe, although without any real understanding of what exactly was happening in Portugal. The Portuguese revolution came as a tremendous surprise to the western countries that had, until then, always collaborated with the dictatorship and that were convinced, up to the eve of the *coup*, that the dictatorship was solidly in place. Consequently, they had in no way prepared for the post-dictatorship situation and retained or sent to Lisbon ambassadors who were sympathetic to the situation but who knew very little about what was going on. Besides, even for a Portuguese citizen the situation was difficult to understand. Civilians did not know 'who was who' among the military – they simply did not know who they were. For example, when I returned from exile in France two days after the revolution, I asked my party comrades what they thought and 'who could be trusted among the military. Interestingly, the names they gave me were, as I found out later, those who were closest to the Communists and who, at the time, seemed to be the most moderate, because this was the "word of command" of the PCP. The military were in the same position with regard to the civilians. They did not know who we were, they could not distinguish the Socialists from the Communists and, often, they got it wrong and "backed the wrong horse".

In the midst of all of this, the State had completely collapsed. Street demonstrations began on the day after the revolution. "No more soldiers for the colonies", was the cry taken up by the militants of the extreme left. This came to mean the breakdown in aid from the mainland to the African colonies, when the military who were still there had begun to fraternise with the guerrilla fighters of the nationalist movements. These same movements had had no form of support from the moderate African countries, nor from the member states of NATO and allies of Portugal. Basically they were only supported and sustained by the Communist countries – USSR, GDR, Czechoslovakia, Bulgaria, Hungary, Poland and, in some cases, China. They could count only on the solidarity of the countries of the "eastern bloc", although they did have some contact with the Scandinavian countries. In this way, almost imperceptibly, the nationalist movements, even when they were not actually communist, were gradually subjected to the support of the international communist movement.

As for the Portuguese democrats, we had the solidarity of some European countries, particularly Britain (the Labour government was in power), Germany (the Social-Democrats

were in power), Sweden (the same) and Italy, but apart from these, we had no effective support from any other country. France, for example, after the flight of General António de Spínola, on 11 March 1975, thought it would be best to give support to forces set up outside Portugal or an attempt at a pseudo-democratic, restoration type *coup d'état* which, had it taken place, would have been fatal for this country, because it would have offered "on a plate" the pretext to set up a communist regime in Portugal – and take the classic example of what happened in Cuba. In the United States of America, the reaction was one of torpor and almost total indifference to what was happening in Portugal. The USA had other concerns, although it did appoint a special ambassador to Portugal, Frank Carlucci, who merits some acknowledgement. Ambassador Carlucci, an American of Italian descent, is highly intelligent and clearly understood the Portuguese political process and helped us immensely.

The fact is that at this time the North American Secretary of State, Henry Kissinger, had come up with the famous "vaccination theory", in which it was thought preferable to allow a communist regime to take hold in Portugal, because this would act as a true "vaccination" against communism for the other countries in Europe. Towards the end of 1974, when I was the foreign minister for the Provisional Government, I spoke to him for the first time in Washington. Kissinger said to me: "My dear friend, it would be best for you to stay here. We will arrange a job for you in an American University. If not, you will be wiped out in Portugal: either they will kill you or you will be put in prison again. Because, obviously, you are the Portuguese Kerenski. And Portugal is lost to the West". No matter how many times I told him that I did not think I was a Kerenski, I could not agree with this comparison, nor with that of Masarik or Allende, the Americans were certainly convinced that the game was already up because, at that time, the President of the Republic, the prime minister and many military chiefs were either communist or prepared to play the communist game. They did not count on the reaction of the people and this was what the Socialists were encouraging and guiding. They attached no importance to European solidarity. For this reason we had to defend ourselves and to act almost alone.

We managed to defend ourselves and to act almost alone, despite the military being used for the ends of the PCP and other extreme left political groups that at the time proliferated in Portugal, particularly after General Spínola had resigned from his position as President of the Republic (to which he had been appointed by the *Junta de Salvação Nacional*), after the events of 28 September 1974. Spínola decided to resign from his duties because he

felt that all of the political levers escaped him and few of the military obeyed him. He took this decision without any prior consultation and without even notifying us. For example, as the leader of the PS, I was abroad and was taken completely by surprise by the news given to me in the midst of a Council of Europe meeting when I was answering questions. At a certain point in the meeting, a member asked me: "Do you think you are still a minister? There has been another outbreak of revolution in the streets in Portugal". I answered him: "I may no longer be a minister, but now let me tell you what I think about the situation in Portugal". It was a very difficult situation. The resignation of General Spínola and after, on 11 March 1975, his flight abroad, gave tremendous added strength to the PCP and the systematic manipulation of the military and civilians that the Communists then began.

Immediately following the April Revolution, the archives of the political police (PIDE/DGS) were opened to whoever wished to consult them. When I returned to Portugal, one of the first things I said to General Spínola was "For God's sake, have the PIDE/DGS archives sealed! Do not let anyone use the political police archives". He did indeed appoint a General to deal with these archives, who in turn appointed some advisers, who were very pleasant people and highly capable, but the majority were carefully selected Communists, as we were able to prove later. The result was that the archives were certainly photocopied and used later. Many people, both civilian and military, were later the targets of bribery. Only in this way can you explain how people who were conservative and even known to be anti-communist changed from one day to the next to being enthusiastic members or loyal collaborators of the PCP. Of course, one year later, discretely or not so discretely, they jumped back to their original beliefs. In the eastern and central European countries something very similar is happening, and it will certainly be practical and necessary for the files of the former political police to be duly protected, so that they do not have a negative effect on future political development.

You may ask how it was in Portugal, faced by so many difficulties, that those endorsing democracy managed to win through. It was indeed something quite extraordinary! I suppose they gained ground in the streets and also the Socialists managed to hold on and not to leave the government or the political process before time, despite every sort of crisis and difficulty within the "provisional governments" that followed one after the other after the Revolution. On 1 May 1975, five days after the PS had won the elections to the Constituent Assembly, I was prevented personally from joining the group on the stage in the stadium where labour day was being commemorated, although I was the Secretary General of the PS and the foreign minister of the

provisional government. This caused major repercussions, inside and outside the stadium, that almost put an end to the commemorations. But it was after this incident that the PS began a major recovery in the streets and among the overwhelming majority of the population. We, the Socialists, gained confidence and the cry taken up in the streets was: "Socialism yes, dictatorship no"! We did not want to return to a dictatorship, whether of the right or the (pseudo) left, and we were understood by the people. I should add that the Church too played a very important part. Discreetly, but effectively, the Church was present throughout this whole struggle, which involved a constant stream of street demonstrations that attracted more people each time. Almost every day, in Lisbon, Oporto and in the main towns and cities throughout the country, the people came into the street shouting slogans and protesting against the manipulation of power by the Communists. This caused a split among the military.

The first free elections for the Constituent Assembly were held on 25 April 1975, exactly one year after the Revolution. A few weeks later, in the month of June, following a Communist, left-wing attack on the newspaper *República*, sympathetic to the PS, the Socialists walked out of the IV Provisional Government and caused a serious political crisis. Other independent ministers and the People's Democratic Party (PPD), accompanied the Socialists some time later. This meant that the Communists had to form an emergency government – the V Provisional Government – made up exclusively of Communists and the companions they had picked up along the way. This crisis and the make up of the new government gave rise to serious confrontations during what became known as the "hot summer" of 1975, which marked the start of the counter-revolutionary movement. That is, we caused a division in the Armed Forces Movement and, from then on the Communists and their allies, who felt they were losing ground, recklessly threw themselves into an attempt at a final *coup* in a last bid to take-over power, an attempt that ended in failure. It was the *coup* on 25 November 1975, followed by a *counter-coup*, that eliminated the first and re-established the democratic process.

From that time on, the transition to democracy was peaceful. In fact, throughout the whole process, from the time of the revolution, there was some violence in the streets, but fortunately there were few deaths. After "25 November" a political compromise was established, expressed in the pacts agreed between the MFA and the parties, which, it must be said, were accepted by the Communists, with some tactical meaning. This compromise for a peaceful, gradual transition to democracy, meant that the elected Constituent Assembly could draw up and approve

a new Constitution for the Republic. The text of the Constitution approved on 2 April 1976 is in itself a compromise in establishing a Revolution Council as an organ of power, the members of which were exclusively military, and in recognising a revolutionary legitimacy apart from a democratic political legitimacy expressed by the vote of the people. It was against this background that the first legislative elections were held for the new *Assembleia da República* (Parliament) as well as the first elections for the Presidency of the Republic. After these elections the First Constitutional Government was formed, over which I had the honour to preside. It was a fully democratic government and, for the first time after the Revolution, included no Communists. It was a minority government, formed exclusively by Socialists, with a relative majority in the Assembly, although initially it benefited also from the parliamentary support of the Social-Democrats and the Christian-Democrats. This government was to be brought down in the Assembly 18 months after it had been sworn in, but the Portuguese democratic process had been stabilised effectively. Some years later, in 1982, the first revision was made to the Constitution of the Republic and the Revolution Council was abolished. Only democratic legitimacy was politically valid. In 1989, the second constitutional revision eliminated from the text of the Constitution the principle of the irreversible nature of the nationalisations that had occurred during the revolutionary period. A market economy was fully re-established, although it had never ceased to function, which meant that when Portugal joined the EEC on 12 June 1985, considerable impulse existed to help develop the country.

The writer André Malraux wrote some words that are highly pertinent in referring to this troubled but decisive period and I would like very much to quote them here because they are absolutely correct: "For the first time in History, the Portuguese Socialists demonstrated that the *Mensheviks* are also capable of overcoming the *Bolsheviks*". With pride I can say that this historic fact took place in Portugal.

We were able, therefore, to build a true pluralist democracy. This democracy was highly stable, there was a division of powers, and it was recognised that an open society with a market economy was essential, with a free, democratic union movement and the political rule of dialogue and social consultation adopted. In the First Constitutional Government, of which I was the prime minister, we managed immediately in 1977 to get the authorisation of the Assembly to ask for negotiations to begin for Portugal's accession to the European Economic Community. These negotiations continued for seven years, which was an extremely difficult time for the country. Our major argument to

Portugal's future partners in the EEC were exactly the same as those used today by the Czechs, Hungarians and Poles: "Now that we have managed to install a democratic regime, you cannot leave us at the gates of the European Community and refuse us assistance! How do you expect us to be able to hold on to a stable democracy when we are confronted by a disastrous economic and financial situation?" In 1976 and 1977, we received a large foreign loan to help finance the daunting task of economic recovery. We felt it was fundamental for us to join the EEC to be able to consolidate democracy in Portugal. These were our major arguments in 1977, but we only achieved accession in 1985. Due to chance and political circumstance, I was once again prime minister and, therefore, had the honour of underwriting Portugal's Accession Treaty to the EEC.

This accession, apart from being highly relevant to consolidate the democratic regime, and for the progress and economic development of the country, also meant that Portugal returned to Europe, the necessary direction for a small democratic State that had loyally decolonised and renounced the empire. During the former regime, Portugal's economy was based entirely on colonial rule and, when the colonies were lost, the situation became chaotic, due mainly to the mass return of those Portuguese resident in Africa (around one million) and also to the radical changes brought about during the revolutionary period. A political leader of the old regime, ambassador Franco Nogueira, who was foreign minister under Salazar, claimed: "If, one day, Portugal loses its colonies, inevitably it will become a province of Spain. It will have no more reason to be an independent country". We managed to prove that this theory was wrong. The independence of Portugal was never at stake. Quite the contrary, we reaffirmed, as never before, our national identity, raised the prestige of the country and reinforced its independence. But all of this had to be achieved, as it was, within the framework of Portugal's accession to the EEC, which occurred at the same time as that of Spain, and which facilitated and developed understanding and co-operation between the two Iberian countries. Indeed, relations between Portugal and Spain have never been so good and communication between the two countries never as intense. There are practically no borders any longer between the two countries, but the truth is that within the European framework to which we belong, there is no risk of Portugal putting its independence at risk. Today Spain is a democratic, decentralised country with several autonomous regions – and even has some complex national identity problems. Unlike Spain, Portugal is a nation State, with considerable national unity and has no regional, linguistic, religious, ethnic or border problems.

However, democracy is not a static process. It requires dynamic, on-going construction which, to a certain extent, is never complete. Despite the enormous steps taken towards the development of the economy and society, in economic terms Portugal still has some grey areas, interrogations and uncertainties. Restructuring and modernising industry, agriculture and services has not been completely or satisfactorily achieved, although there are some encouraging signs in certain important areas such as the growing internationalisation of several Portuguese companies and the consequent strength added to some national economic groups. Furthermore, the success of Portugal joining the "advance guard" of the single currency – the euro – is a highly positive sign and encouragement to proceed with the necessary and essential reforms required to modernise the country. It must be remembered that sooner or later, the time will come when the bill for the benefits received during the early years of European integration will have to be paid. And Portugal will have to be ready to face this new phase successfully.

In addition, although Portugal was always – and will continue to be – a country with an undeniable "African vocation", relations with Africa have not been sufficiently developed or consolidated. And Africa has evolved badly. We must recognise that in global terms, the whole of the African continent evolved disastrously after the decolonisation and independence movements. Europeans began taking a different view of Africa. The British, French, Belgians and Portuguese, as well as other Europeans living in Africa, thought that up to the Second World War they were there to stay and, therefore, made an effort to create institutions and organisations for effectively developing African territories – plantations, fields, mines, intensive agriculture, some industries, road networks, basic drainage, schools, hospitals, health centres, etc.. Whenever their presence in Africa became transitory and conditioned, their attitude changed and they began to see Africa only as a source of trade, and tried to gain maximum profits with the lowest investment – and the faster the better. To this end, the best approach was to support local tyrants and accept corruption as normal and regular. This cynicism of Europeans towards Africa is one of the causes of the terrible misery and desolation experienced today by the whole African continent. The balance of the first years of African independence is highly negative, as René Dumont demonstrated, clearly and with great courage, in his study that today is a classic: *"L'Afrique noire est mal partie"*. The balance is similar for the Portuguese, although with fewer responsibilities, in view of the circumstances in which decolonisation took place – late, and coinciding with the turbulent process of transition to democracy in Portugal.

Now, however, 10 years after the collapse of communism, the swing towards democracy, also visible on the African continent, can and should lead to a new approach between Africa and the West, which should have new foundations and prospects if both parties show sufficient political determination and clarity of purpose. It is essential for the African states to be truly independent and not just have the right to independence. To this end they must have a minimum basis for sustained development, both from the economic and social points of view. This, of course, is our historical responsibility as Europeans, which we cannot and should not reject. Will we be capable of this? The problem of the so-called Third World – of Africa and, to a certain extent, Asia, and from a different perspective, Latin America – is that of the absolute need to organise a new world economic order.

To a certain extent, the problems that several eastern and central European countries face today in consolidating their new democratic regimes – with all the inherent economic, social and political difficulties – are of the same origin. We must be fully aware of what this “other” Europe means for the European Union. There can be no stable European Union if it remains indifferent to the rest of Europe. The eastern and central European states are as “European”, so to speak, as the western European states. The contribution they have made to the idea of European civilisation and culture, to the values that are common to us, is as precious and original as the contribution made by the western European countries. It is absolutely fundamental to accept this claim. To join the EEC, the Portuguese argued that they had conquered democracy with their own hands and required European solidarity to consolidate it. We cannot now refuse to show absolute solidarity and to listen to those who in eastern and central Europe are telling us the same thing, although with even more consistent and dramatic arguments.

It is clear that in the current state of development of the European Union, particularly with the implementation of Economic and Monetary Union and with the euro coming into force, we must strengthen political unity, develop and consolidate the coordination of European defence and security policies, correct the democratic deficit of the institutions of the Union – particularly increasing the power of the European Parliament – and give further encouragement to social cohesion policies. The impact of the supranational European institutions depends on their having more responsibility and subjecting them to wider basic democratic scrutiny. The coordination and development of common policies in areas as important as justice and public administration and reinforcing university, scientific and cultural cooperation, are also

indispensable for Europe to become an enormous open space underlain by solidarity. And it is for all of these reasons that I consider it urgent to make a global revision of the treaties that govern the European Union, so as to give them the instruments required to make them work effectively, without which enlargement to bring in the new candidate countries could become a serious risk.

But the problem of Europe today requires, in my opinion, creating an increasingly wider-reaching unit. The enlargement of the European Union is essential. If this does not happen, we may continue to witness the serious phenomena of “Balkanisation” within the space that the geo-strategists call “Eurasia”, as well as an increase in aggressive nationalism that history has shown always to be so contagious and dangerous for western Europe. We cannot overlook that the world today, in the process of accelerated globalisation, is almost completely deregulated and that the fall of communism represented, for many, the opening of a true “Pandora’s box”. As that serene source of inspiration, Greek mythology, has taught us, the goddess Pandora had been given a box by Zeus and distracted or unwisely she disobeyed his instructions and opened it releasing all the woes of the world. And it is this that we are witnessing today in Russia, the Balkans and the Caucasus, for example. All the woes of the world seem to have been let loose, just when we thought that the end of communism and the “eastern bloc”, ruled by the former USSR, would bring the euphoria of freedom and regained democracy. But uncontrollable problems, some even unsuspected, are now emerging and developing a little everywhere. And the fact that the USA has become the sole military super-power globally, with a manifest vocation for imposing its determination to “police the world”, opens up new crucial questions on building a “new international order”, bearing in mind new political, economic and strategic instabilities throughout the world.

In view of these deep-reaching crises and instabilities that are a feature of the increasingly globalised world in which we live, solidarity, both nationally and internationally, must prevail over egoism – and ideas on cooperation and the emancipation of democratic socialism or social-democracy must prevail over unchecked competition and capitalism envisaged by ultra-liberalism. Democratic socialism or social-democracy has been since the nineteenth century, and particularly throughout the twentieth century, the major emancipating movement. In a gradual and reformist way, it has brought to many people throughout the world more social justice and more equality of opportunity, always with respect for freedom and human rights,

within the context of open societies and market economies, in which the State has a role to play as the regulator and controller in helping the less fortunate.

We all know today that it is not the famous "invisible hand" that Adam Smith spoke of, that will resolve the dramatic situation in which so many African, Asian and Latin American peoples live, nor will it correct the pockets of poverty and marginalisation found in so many of the developed countries in the western world. The serious situation in Russia and in other countries of eastern Europe proves that the uncontrolled capitalism that has taken over there, does not resolve the enormous social problems faced by these countries and may even give rise to new and dangerous disturbances. Social problems cannot be resolved through the simple mechanisms of a market economy. Policies for solidarity and social intervention are also indispensable, and they must of course respect freedom of participation for citizens and fundamental human rights.

In many parts of our world, the basic problems facing millions of individuals continues to be the problem of survival, as Willy Brandt emphasised 20 years ago in his famous "North / South Report". In recent decades we have seen the formation of three centres for economic, scientific and technological development: the United States of America (associated with Canada and Mexico within NAFTA); Japan (and a group of Associated Asian countries); and the European Union. But apart from these three major blocs of developed countries that benefit from scientific and technological progress, two thirds of humanity continues to suffer the horrendous problems of development and survival. Many millions of people do not have sufficient food and live in misery. They live in ignorance and are the victims of disease and a very low average life expectancy. Added to this is a demographic explosion that is far out of control and increasing pollution problems that affect not only these countries but the whole planet. Mankind as a whole is being seriously affected.

It is fundamental and urgent to impose a certain degree of rationality on the development of the so-called "global village" and to develop new forms of cooperation and solidarity among the peoples of the five continents. The countries that are part of the three more developed world centres have increasing responsibilities. The financial institutions and international organisations which they control have an essential role to play in the context of globalisation underway, in trying to avoid even greater gaps between countries and peoples, gaps that in time could have serious consequences for us all, without exception. It is no longer possible to imagine that the "first world" – the world of the richest and most developed countries – can

continue to ignore, with impunity, the under-development and suffering of "other worlds" that on their periphery are so pitifully limited to survival. The selfish temptation of our own well-being and indifference to the ills of others is an extremely dangerous attitude for humanity as a whole. Under-development is ripe terrain for all forms of extremism, from the most exacerbated nationalism to religious and cult fundamentalism, including xenophobia and racism.

Intrinsic rationality and the values underlying ethical idealism based on freedom, tolerance and dialogue among individuals, peoples and civilisations must be revived and spread widely. It is this idealism that must be recovered and defended by this "common home" we call the European Union. The great "European ideals" which are the grounds for the development of the so-called "western civilisation", can only be those of rational humanism, freedom, solidarity and equality of opportunity, recognising difference and respect for others.

Freedom usually brings about "miracles", even when they are least expected. The recent history of democracy in Portugal is an example of this. May it bear fruit!

The Negotiating Process

João de Vallera

I – Introduction and background

To consider the negotiating process comprehensively and in depth is a vast and difficult task, basically because everything related to the European Union that happens in Brussels and, to a large extent, in governmental and administrative channels in the capitals, can be ascribed to that process. Alternatively, the topic could be restricted to an analysis of working methods and procedures, but I do not believe that I should choose in this context such a specialised approach, nor was I asked to do so. Therefore, a somewhat arbitrary and necessarily subjective delimitation is required, drawing from experience and memory what would appear to be more interesting to emphasise within the topic. I do not claim to offer any particular analysis, but rather to suggest lines for further reflection and to assist in some way those who wish to draw a more complete balance on Portugal's participation in the intricate network of practices and play of forces that occur – and are put to the proof – daily within the Community system.

I shall address briefly some issues regarding the way national positions are adopted in Lisbon and the organisation and defence of Portuguese interests in Brussels, as well as the necessary coordination between the front line and the rear guard, trying to draw some conclusions. I shall also ponder the meaning of the vote within the Council, with the practice of qualified majority voting now firmly established in the community order. I will further attempt to summarise and give some consistency to what might seem, at first sight, like a mixture of scattered measures, considering

the driving forces which I believe have, across the board, guided our action on the various levels of the different compositions of the Council.

2. However, before developing these topics, I would first like to make a number of general remarks that could be useful in better locating Portugal's approach within a decision-making structure where the main streams of its foreign policy quickly converged, and which became a predominant catalyst and conditioning factor of its economic development. I will also make some comments of institutional nature related to the Community's decision-making process and its development.

2.1. Contrary to what many predicted prior to signing the act of accession, Portugal's integration in the European Community, including the stage of initial shock, was not accompanied by disaster, nor did it lead to a break down when it came to adapting the country's economic and social structures, or when public administration was called to face new demands and challenges. The generally acknowledged success of the first Portuguese presidency in 1992 was an expression of maturity, preparation and the good performance of the different agents involved in the process of European integration. I underscore this aspect for several reasons. Firstly because, when motivated and put to the test, we are usually better than we care to admit; the need to take risks and exposure to foreign stimuli have paid off in Portugal, to the detriment of more defensive and fatalistic attitudes.

Secondly because, when assessing the negotiating process in Brussels, memory tends to be short and oblique: one might say that the habit of success – enhanced by the tendency, rooted in Community choreography, of centring the analysis of the decision-making process excessively on the cult of triumph – made us, at the same time, more detachedly suspicious and *blasés*, removed from the context and above all preying on failure.

Thirdly, because the focus of evaluation often tends to fail for being too immediate and circumstantial: the first one-off inconvenience shadows the good progress of the whole, as well as, inversely, a laudable performance in a particular sector up-stages global development that could tend to be hazardous. In such an exercise it is fundamental, without obviously overlooking management, not to lose sight of long term objectives and to view the inevitable enthusiasm and setbacks accompanying the intense Community daily routine against a wider reaching background.

2.2. Overall, accession was undeniably positive. Its beneficial effects were visible in the recovery of the gap in economic development, the change in attitudes

and signs of social wellbeing, in the gradual restructuring of productivity with sacrifices controlled and limited in terms of employment, in the adaptation of the financial system and the development of infrastructure. The dynamic effect of the response to the challenge was greater than the effect of the disturbances caused in the more vulnerable sectors. Among these, agriculture, not surprisingly, proved to be a particularly difficult area. Even today the gap between a common agricultural policy geared to the countries of the North and the structural weaknesses affecting Portuguese agriculture, which are more striking than those to be found in the other southern European partners, has not been sufficiently narrowed. Despite emotional clashes and contradicting interests that occurred, for example, in deep sea fisheries and the canning industry, clear advantages have still been obtained for Portuguese fisheries with the revision of the regime that was in force with Spain, with incentives given to market organisations and structural aid received. Besides, one can legitimately ask whether these difficulties would not have been even greater if accession had not occurred. Equally obvious is the fact that many of the benefits acquired lie in the considerable increase in the transfer of structural support to the less developed regions after Portugal and Spain joined. The cohesion policy, with all its merits, has to be viewed within the context of the relative distribution of wealth within the Community space, which has necessarily an evolutive nature, and of the priorities ensuing from the play of forces that condition each Community negotiation. It is difficult to imagine that Portugal will continue to benefit indefinitely from the amount of support received. The less positive phase that will follow must be overcome, as well as certain bad habits created at home in the meantime, such as the incorrect understanding that integration is above all worth while for the financial transfers received.

2.3. Far from concealing or clashing with other fundamental objectives of Portuguese foreign policy, a critical issue that, understandably, was also of concern to many, the European Union became not only a constant framework of reference, but it also complemented, extended and contributed towards feeding specific interests of Portugal as an entity in the system of international relations and at the centre of a dense network of historical links built up over the past. Without going into detail, I would argue that this was the case, both in the management and development of traditional areas where Portugal was active abroad (Spain, Brazil, to mention those where the level and nature of relations were most impressively intensified, the USA, NATO), as well as in the building of new or renewed areas of intervention (the African Portuguese-speaking countries, the Community of the Portuguese-Speaking Countries, Lomé, Africa,

Morocco and the Mediterranean, Macao and Timor) or in the defence and expansion of elements intrinsic to a Portuguese identity (culture, language, diaspora).

2.4. One of the original features of the European Community – rarely mentioned among its distinguishing traits, perhaps because it is so obvious – is that it is not a static, completed, self-contained body, not only in terms of its competence, but also regarding the universe of horizontal and vertical areas of competence it comprises, and the actual rules that govern it. The changing nature of the Community has been a constant feature, intensified over the fourteen years following the enlargement that brought in Portugal and Spain. Revisions of the Treaty with the Single European Act, Maastricht and Amsterdam, past and future enlargements, expansion of areas of responsibility, introduction of new concepts and objectives, readjustment of policies and priorities, confrontation between levels of ambition, aims and means, changes to working rules and to the institutional balance, succeeded one another at a stage in which the notion of “permanent negotiation”, perhaps as never before, was intrinsically linked to the Community system. The Community that Portugal joined, even retaining essential characteristics of its core, was substantially different from the Union of which it is a part today, and certainly different from the one that will continue to be built over coming years. Nor can it even be said, as some were tempted to say at the time of concluding the second “Delors package” (once some doubts were cleared up regarding the concept of subsidiarity and the creation of new pillars), that its trajectory was linear and the meaning of integration almost pre-determined, so that the next steps to be completed were simply a question of time and political opportunity. The truth is that Amsterdam – and I am aware that here I am venturing into controversial matters – even if in some areas it continued the more orthodox integration approaches inaugurated or promised in the Treaty of the European Union, in others it accentuated specific original features or followed a number of different routes, some in fact leading away from what were the original intentions of their founders or the principles of the ever attentive guardians of the purity of the Treaty. Also in Amsterdam – besides hubs of tension within the field of inter-state power-sharing, held in limbo in previous reforms but which grew on the wake of the traditional debate on the distribution of responsibilities among institutions – there were increasing signs of a widening gap between ambitions announced and the means supplied to achieve them. Agenda 2000 was to a great extent the natural consequence of this approach, and the atmosphere surrounding its negotiation, as well as the perspectives that it opened up with its

outcome, are substantially different from those characteristic of the Delors epoch. Despite the launching of the euro and the new adventures announced in the fields of foreign policy and common security and defence, new areas of doubt arise. Additional work is again required to meet common goals beyond day-to-day management, to regain the interest and support of citizens, to give a renewed prestige to the institutions and to deal with what is being announced as a serious identity and growth crisis (although the history of the Community has been a whole succession of these same crises, all creative up to now). More than ever before, in such circumstances, a clear idea of national interest is required, but understood as an interest which is part of a mobile and ever changing Community, to whose moods one must be vigilant and whose course, for the benefit of all, one should attempt to influence and chart.

2.5. The Community structure, as we know it and as it has evolved to date, is based on a complex balance among institutions and among States which, despite not granting arithmetic parity to representation in all institutions, is based on the principle of equality, and provides guarantees and means to all, even the smallest, to shape policies and constitutional rules, in short, to influence the course of events and defend their interests. Even being aware of the reality principle which shows that the degree of influence does not depend only on the number of members of parliament nor on the votes within the Council – a principle which in fact often works both ways – and that the larger States benefit in any circumstance from other kinds of advantages, the fact is that, in this respect, the system has worked satisfactorily and to it much of the success and attraction of the Community model is due. It is a well known fact that the quality and efficiency of a presidency is not related to the size of the State holding it – more administrative flexibility and less permeability to internal constraints encourage the work of smaller members and facilitate their effort to reach compromise – and as the statistics of voting within the Council have shown both the great and the small are occasionally outvoted when decisions are taken on a qualified majority. Whoever wishes to change this state of affairs should remember that in the Community there are no permanent alliances, apart from a certain regularity of convergence, of varying geometry, that tend to be repeated in some recurrent themes or sectors of Community activity, and that it is common in the same meeting to oppose a partner with whom on the next item you find to be on the same side; that the “small countries”, as a body of interests likely to unite against the “big countries”, is an abstraction that was never manifest in the process of Community decision-making (while there are cases in which the opposite has occurred); and that it is fundamental to respect the principles

of balance between States regardless of their size, as well as safeguarding legitimate interests that might be peripheral compared to the Community average, not only for reasons of principle or for the theoretical defence of the principle of equality, but quite simply because the Union would not survive the break down of this kind of social contract which is a keystone in the whole system.

2.6. The practice of unanimity, difficult to overcome in matters of a constitutional nature or with a particularly sensitive dimension, has often been the cause of obstacles to legislative activity and, in principle, an invitation to a certain degree of rigidity in negotiations. It can also be seen as a false advantage when one has to face the costs of preventing single-handedly the approval of an act supported by the remaining partners. Qualified majority involves risks, but is undoubtedly necessary for the system to function properly and, therefore, for pursuing the common interest. Only Q.M.V. allows the Commission to fully exert the prerogatives granted by article 250.1, a keystone of the so-called Community method that has survived, even if sometimes under attack, the different revisions made to the Treaty. The threat to face a vote in the final step of negotiation forces Member States to negotiate well from the start and separate the essential from accessory aspects; this is why it is usually said, paradoxically, that a qualified majority is, more often than not, the most effective and swift way of achieving consensus. However, for its force of attraction to continue and for its nature not to be wrested, negotiating practices in force – including the detailed and thorough analysis of the proposals and the serious attempt to overcome the problems raised by Member States at the three levels on which the Council operates – should not disappear on the wake of any simplification of working methods. It is nonetheless difficult, within the package of subjects scheduled for the next Intergovernmental Conference, that Q.M.V. be assessed according to its own merits, as it will be inevitably linked to the other basic terms of the negotiation: the Commission's composition and the weighting of votes within the Council. The latter is tremendously sensitive; as for the former, when returning one day to the possibility of some Member State having no Commissioner, there will be countries that will always refuse it. This is not because a Commissioner represents his or her country of origin, but because it is difficult to imagine that a body with the powers of the Commission can exercise with propriety its right of initiative without access to a comprehensive and direct knowledge of the realities of its Member States.

On the other hand, the Commission might lose credibility, authority and legitimacy in a Member State, or at least with its economic agents and citizens as a whole, if it were not to include a member of the nationality of that Member State.

2.7. It may seem a minor issue, but it is a mistake to imagine that procedural rules and practices are a secondary aspect that can be casuistically laid aside in the name of simplification and efficiency. In an ever more complex Community, and with increasingly more bodies involved in the decision-making process, institutional and procedural heterodoxy or abuse, in Community routine, serve only those with most capacity for exerting influence outside the system and the basic principles of true transparency.

2.8. Not so directly linked to the negotiating procedures, but with regard to enlargement and changing structures, I would like to make one last general remark: certainly any enlargement brings with it the seeds of dissolution, the more so in affecting the degree of homogeneity previously achieved and threatening, in the mathematics of voting and management of time, the decision-making procedure. It is nevertheless false to conclude from this premise that an enlargement process is necessarily followed by dilution. The response of the system to the threat of greater difference, if the right conditions are made available, could, on the contrary, encourage quality progress in the integration project. This was indeed what happened after Portugal and Spain joined. The effects of dissolution may be accentuated not only through enlargement and the admission of new members, but by the attitude of the States that are already part of the Community. In future enlargements it will be particularly interesting to see the outcome of the dialectical opposition between centrifugal and centripetal forces, how far and in which areas it will lead either to new stages of integration, or to dilution or differentiation, the third way opened up by the Amsterdam Treaty with flexibility and reinforced cooperation. The terms in which the negotiations for Agenda 2000 were conducted – overdetermined by the prevailing will of some Member States to constrain spending – may provide an initial understanding of how trends will be tabled.

II – The formation of the national position

3. In the capitals

3.1. It is commonly said that joining the European Union demands radical changes in the way in which the foreign policy of a country is conceived and organised. Difficulties do arise, even for the specialists and even for those countries that have been involved in the integration process for longer. Problems occur when

setting up a structure to give constant, effective and smooth backing to conducting a policy which is to be consistent and to accommodate the interests of the different sectors involved in the Community, while ensuring control over the significant areas of sovereignty that have been transferred to the European sphere. The correct response to this problem is as necessary as it is complex, particularly when fully bearing in mind the implications of the growing enlargement of the jurisdiction of the Union within its three pillars, together with the deepening of the decision-making process, due to the increasing number of instruments to be approved by qualified majority and to the introduction of a new process, in itself evolving, as proved in Amsterdam, of codecision with the European Parliament.

A preliminary conclusion drawn from experience is that there is no ideal system for coordinating Community affairs, and that even in the better organised countries where there is a solid tradition of centralised management of foreign policy, decision taking involves a cumbersome process that occasionally misfires.

After trying out a good number of possible models, Portugal decided after the final negotiations for accession, to use the system that from its general outline prevails in most Member States of a similar size, and which is different from the systems in force in countries such as France, the United Kingdom and Germany. The coordination structure is based on the Ministry of Foreign Affairs, where an Inter-Ministerial Committee meets weekly, under the presidency of the Minister (who usually delegates the task to the Junior Minister for European Affairs or to the Director General for Community Affairs) in which all the Ministries that have responsibilities in community affairs are represented at Director General level, as well as the Autonomous Regions and the Office of the Prime Minister.

Shortly after, two additional, inter-ministerial structures were created upstream, one at the top (Council of Ministers for European Affairs), to define strategic guidelines and to arbitrate in inter-departmental conflicts of interest which were left unresolved at inferior level, and another intermediary, at Junior Minister level, to ensure the tasks of political coordination of more common aspects of management, and of control of the implementation and enforcement of EU law and of the occasional community legal disputes with the Commission or the European Court of Justice. Preparing major *dossiers*, such as Treaty revisions, enlargement or the negotiation of the financial perspectives, was sometimes entrusted to *ad hoc* coordinating structures, under the control of the above-mentioned Inter-ministerial Committee.

As mentioned above, the system is not perfect and it could certainly be improved in many of the ways it works. However, it is also true that with an appropriate dash of pragmatism, flexibility and a great deal of personal dedication – and despite some dispensable overstrained heterodoxies – it has fulfilled its role, so much so that, following the different solutions experimented before accession, it has remained unaltered for fifteen years.

3.2. The problem of defining the national position can be summed up simply into three areas:

- the sounding out of opinions from the different economic and social interests and the more general question of information and communication with citizens;
- democratic control;
- defining the content, timing, level and placement of coordination.

The first area, more traditional in outline when dealing, for example, with organising contacts with professional associations or with university circuits, has varied in scale and became particularly important when European public opinion – following a trend opposite to the development of the European Community itself, that changed direction from prevailing economic concerns to political and social aims, moving towards citizenship – began gradually to lose interest in the phenomenon of integration.

The second area, that has been felt in relations between national Governments and Parliaments, although with varied intensity within each Member State, gave rise within the Community to a vast output of literature. It also resulted in some misunderstandings, fed inter-institutional debate and, under the concept of “democratic deficit”, it ensured in recent revisions of the Treaty a central role and the transfer of significant powers to the European Parliament.

The third area leads to the crux of the Community decision-making process. The immediate question is to determine which matters are to coordinate, and to what extent, out of the tremendous number of affairs that are decided in Brussels. If, on the one hand, the Community experience became part of a context in which there was more – and often excessive – penetration and gradual autonomy seized by sectoral departments in areas where in the past the Ministry of Foreign Affairs had almost exclusive control, on the other hand, it is also true that the internationalisation of economic relations, and above all the degree of integration achieved by the Community, led to a situation where a substantial part of the policies for which these departments were responsible started to be decided in Brussels. The tendency is, therefore, not to distinguish them from other instruments of

internal policy. Inversely, and even in those decisions that do not require a close coordination of the views of different departments, global consistency for action must be ensured, institutional compatibilities verified, possible co-relations fine tuned, the building of a centralised memory made possible, a *vue d'ensemble* guaranteed... Therefore, depending on the sectors, timing and people involved, the central unit can coordinate more, less, or even sometimes just what is required. This is *par excellence* a vast grey area in which the outlines and definition of rules of the game are far from being stable.

The timing, level and seat in which a position must be adopted, with or without prior coordination, is crucial in the negotiating process given that, in a system with three vertical stages such as that of the Council, in which an increasing number of decisions are taken by qualified majority, it is essential to intervene right from the start of the process, at working group, and to adjust and filter positions in the later stages of Coreper and Council, according to the pace and exigencies of the negotiations. Here, as with survival within the grey area, the Permanent Representations are called upon to play a constant and often decisive part, as we will see later on.

The problem of coordination also arises in the stage prior to the legislative process when, not wishing to be restricted only to reacting to proposals made by the Commission, the genesis of which is often unknown, the Member States try to influence not only their development but, ultimately, to create their own *raison d'être*. This entails a wide and complex universe of coordination with private interests, with national experts contracted and consulted by the Commission at the pre-legislative stage, as well as the need to establish inter-institutional bridges. From a different point of view, the same need for consistency and cooperation among the different departments within the same country is felt at execution level (for example, in transposing directives or in defining and implementing Community support frameworks as part of structural policy) and whenever a Community dispute arises.

4. In Brussels

4.1. Defending the interests of a Member State can, thus, be viewed from a broader perspective than that of its involvement in the actual decision-making process of the Community, expressed through the participation of its representatives in the different bodies where decision taking is prepared within the Council – and also, increasingly, in codecision procedures with the European Parliament – until the

final approval of the instrument to be adopted. It makes sense to extend the view as far as the pre-legislative stage, when the Commission gathers information, consults national experts and germinates the proposals it intends to present to Council, prior to deliberating on them; and to further extend it to the post-legislative period, in which the execution of policies and management of disputes heavily mobilise the administrations of all Member States and multiply their points of contact with the Community bureaucratic machinery. The scope of the analysis can also include, still within the public sphere, but by-passing the responsibility and the line of command of the national hierarchies, the participation of the nationals of each country in the Community institutions. And to make the scope of observation even more complete, increasing the number of players involved, it is conceivable to stretch it to the private sector. If you add to this equation fifteen countries, the need to bring together the vision of the decision-making centres in the capitals with the depending bodies located in Brussels with varying autonomy, the number of sectors covered, including those of the two new pillars, with their own rules, introduced by the Treaty of the European Union, and finally the role public opinion and domestic and international media play in all this, then you get a reasonable view of all that is to be understood and, whenever possible, coordinated, within this vast and complex process.

Deepening and extending the areas of competence of the Union changed Brussels into a centre of power where the representation of the most varied interests of the economic, social and political life of Member States converge and multiply, as well as those of third countries, the multinational sector and professional organisations on a European scale. Their activities revolve essentially around policy making, seeking to set processes in motion or influence final decisions, or around access to the distribution of the plentiful budgetary means that the Commission makes available in fulfilling its right of initiative and in conducting its central responsibilities as the executive body of Community policies.

Regarding the latter aspect, a great part of the spending takes place at national level, as laid down in precise regulations (particularly in the case of agriculture and structural funds). Brussels is, nonetheless, responsible for supervising and monitoring whether the measures in the Member States conform with the Community provisions in force; and it has a considerable capacity for directly attributing funds to implement programmes for international cooperation or approved as part of internal Community policies, as well as for ordering studies, enquiries or external evaluation.

Without going into details under this heading, I would like to add the following:

- the authorities in all Member States are cyclically confronted with the wish to organise a national lobby which to some extent gathers, or at least creates, possible and effective channels of communication among the different spheres mentioned above;

- the difficulties met within a task of this type are obvious, in view of the size and diversity of the areas to be covered (remembering first of all that the Permanent Representations and central coordinating structures are already overloaded, before attempting anything else, with the decision-making process in the strictest meaning of the term, demanding as it is in terms of defining and defending national positions); due to the fact that this involves groups of persons whose activities are based on a logic, institutional framework and codes of conduct that are different, promoting interests that are not always compatible and might even be conflictual; faced by the need to outline areas of responsibility and intervention (not uncommon are the cases of confusion of roles, and sometimes dysfunction, among Permanent Representations, Commissioners' offices or even European Members of Parliament, often caused, although involuntarily, by the capitals themselves); such difficulties can however be attenuated if the level of ambition be adjusted, the rules of the game clarified, the code of conduct respected and if the sense of priorities is not overlooked;

- there are practices in all Permanent Representations that are designed to contribute to integrate forces, as a defence reaction to the natural scattering of the many agents involved in Community life; there is a need for coordination that arises spontaneously from different sectors, bottom up, and not just as the result of a purely theoretical exercise, and which tends to become sharper with the development of integration and of the gradual understanding of the system and its decision-making mechanisms; however, the national experiences, successes and capacity for mobilisation vary, depending on practices, traditions and administrative disciplines, on national idiosyncrasies in relation to coordination, on the actual effectiveness of private lobbying which in turn depends on several other factors (economic development, level of internationalisation of the economy, acquired experience of integration, size of companies and sectors of activity covered, capacity for association and to react adequately to the Community's "supply" and requirements, in a field in which the costs of geographic remoteness from decision-making centres cannot be ignored).

4.2. As mentioned above, it is the decision-making process within the Council that is the core of the work of the Permanent Representations, and the main object of coordination between these and those bodies responsible in the respective capitals for the coordination of Community affairs. I will make five brief comments on this topic.

At the three classical levels in which decisions are taken within the Council (working groups, Coreper and the Council of Ministers) Coreper – despite the intervention of high level committees created in the meantime in specific sectors in the area of competence of the Union – continues to play a pivotal role in the preparation of decisions. This role, recognised in the Treaty after Maastricht, was reinforced and extended with the introduction of the codecision process. Coreper, although split in two, continues to be the only place that enables a global view of a decision-making system that is increasingly more complex and where the horizontal, vertical and inter-institutional ramifications of the exercise of power are a constant invitation to dispersion (suffice to remember that upstream of the Council there are more than 200 working groups and, downstream, more than 20 different formations of the Council of Ministers, apart from the European Council); and due to the moment it intervenes in the negotiation, it continues to be the best place, linked closely to the working groups' activities, for smoothing out conflicts of interest between the different national spheres intervening in European affairs and the Community sphere.

The outcome of negotiations tends to improve when intervention begins at the initial stage of the process, in the search for a good compromise. Inversely, a postponed or crystallised position, left insufficiently worked through for the final political decision level, does not stand many chances of being well succeeded. It is convenient, therefore, to define the fundamental interests needing to be safeguarded, to understand the course of the negotiation and to assess the existing display of forces, thus adjusting objectives and alliances, as soon as possible.

It is important to ensure a single formal channel for the transmission of instructions from the centre to the periphery, although – and also because – the routine of the "permanent negotiation" and the speed of reaction often demanded implies using alternative informal channels to obtain or change a specific orientation at any stage along the way. Swift communication with the capital and confidence between the centre and the periphery are essential for this system – that includes the need for improvisation and flexibility, although under control and within strict limits – to function.

The Permanent Representations have enormous responsibility in managing this margin of flexibility, suggesting adaptations to the negotiating approach and, when necessary, anticipating guidelines, as well as in the coverage of the “grey area” of coordination mentioned in the previous chapter. They also function as a final control network where incongruencies, contradictions of inter-sectoral interests, possible conflicts between sporadic positions and pre-established doctrine on a horizontal and wider reaching plane are detected. In this exercise, the Representations ensure a *a posteriori* coordination, using their own resources (advisors who cover sector-based areas of responsibility, dependant, in the capital, on the different state departments), or, in more serious cases, giving rise to a second opportunity for reflection or arbitration in the capital, at a higher level.

The introduction of the codecision process has increased substantially the responsibilities of the Permanent Representations, not only from the point of view of quantity, since it opens one more platform for negotiation, but above all from the point of view of quality. Indeed, although this is a stage closer to final decision, preparation for negotiation takes place within Coreper and the representation of Member States in the conciliation committees with the European Parliament is provided at the level of Permanent Representatives or Deputy Permanent Representatives, and not members of government, with the exception of the presidency in office.

III – The meaning of the vote in Council

5. The moment in the decision-making process which attracts more attention is the voting in Council. Much has been said and written on this topic, which is also one that lends itself most to preconceived and definitive opinions, not only from a reactive and conservative perspective, but also from the side of Community “political correctness”. This is a sensitive field, where the consequences of transferring sovereignty to the Community are stressed and more clearly exposed, where many opposing variables appear, where the weighting of individual interests is far from being uni-dimensional, linear or constant, where intentions frequently clash with day-to-day practice and where, whatever the direction of the basic position adopted, it will result in a two-edged sword effect. On the one hand, the will exists to build an effective decision-making system, that enables the Community to fulfil its objectives, without being held hostage to the extreme position of one State or a very small group of States; on the other, the determination to ensure the defence of legitimate individual

interests, and the fear that these could be mechanically forgotten or overlooked as the simple result of arithmetical majorities, cannot be underestimated.

Basically, agreeing to the enlargement of the instruments to be approved by qualified majority involves a weighted risk for each Member State. On one side of the balance hangs the advantage of the Community being able to function and make progress as a whole, less vulnerable to being blocked by opponents and, on the other side, the assessment of individual vulnerability in the case when the position of that Member State stands against the course of negotiation. The analysis of this risk comprises the perception of the capacity of being able to block single-handedly a decision in a situation where unanimity is required (as mentioned under item 2); as well as the level of confidence in the system to cover individual and minority concerns or, *in limine*, and in extreme cases, in the future of the “Luxembourg compromise”.

6. I will try to take the analysis of this topic a little further.

From a purely logical point of view, qualified majority renders the decision-making process more flexible, avoiding potential blockage of decisions, and it is a central element to the so-called Community method. Furthermore, unanimity tends to make decisions more difficult, as we saw also in item 2. However, it does not follow, as many assume, that unanimity necessarily leads to blocking or postponing decisions. Turning to statistics, we can see that more than 83 per cent of the decisions adopted between October 1995 (after which the break down of the vote in each decision became public) and December 1998 were approved by consensus, in a universe in which most decisions could have been adopted by qualified majority. There are certainly several explanations for this: not all proposals raise the same degree of difficulty, or cause serious divisions of interest among Member States, and the actual prospect of the vote tends to make negotiators more realistic and moderate in relation to their objectives. But it is also a fact that presidencies have tended to maintain, up to now, the healthy practice of integrating differing positions and of finding solutions that, without undermining the proposals, make them acceptable to the largest number of States and, ideally, to all.

But there are other examples that contradict that over simplistic thesis. Revisions to the Treaty, financial prospects, the framework programme for research, where fundamental interests clash and where delays are prejudicial to all, have always been resolved and in time, although the rule of unanimity applies to them. One might argue that this is achieved through excessive compromise in one direc-

tion or another, but it is the price to pay for constitutional decisions, or decisions of special transcendence, in whose results all Member States' fundamental preoccupations have to be somehow contemplated, naturally in a context of reciprocal give and take. However, there was neither blocking nor delay, in these cases the incentive to finalise the negotiation being rooted not in the risk of being overruled in a majority voting, but in the awareness of the common objectives to be achieved and in the importance of losses – both collective and individual – that will be suffered in the absence of a decision.

Lastly, it is known that the universe of qualified majority has come to almost coincide with that of codecision, a mechanism that has made the decision-making process more cumbersome and slower, immaterial of the other virtues and needs that it has covered.

It follows that the efficiency of the decision-making process does not only rely on the majority vote and that, as an abstract value, this efficiency has necessarily its limits, which, if they are accepted as a consequence of the “democratic deficit”, they should also be recognised from the point of view of the safeguard of essential interests of the Member States – even if the discussion on their identification remains opened and sometimes defies logic. The Union serves a common interest, which is often held back by a constellation of national reservations (although these have often proved not to be definitive, allowing the Community system to develop as it did over the past fourteen years), but there are obvious risks and limits in trying vanguardistic and demiurgical attitudes to impose one view of the common interest, as opposed to a more gradual development of the integration process. If the main concern of the critics of unanimity in any circumstance rested on effectiveness, they should defend consistently the generalisation of the simple majority, envisaged in the Treaty as a general rule when the mode of decision is not specified, thus getting round the difficulties still found in building up a qualified majority.

Taking this analysis further, it can be said that within the three types of decision envisaged in the Treaty – unanimity, qualified majority and simple majority – a loophole, at least in theory, may exist: that of the non-weighted qualified majority (in which each country casts a vote, as in simple majority, but the decision would only be adopted based upon the approval of a number of votes higher than that of “half plus one” that characterises the simple majority). This design could make sense in areas where unanimity was the rule, which coincide with domains essential for the

exercise of sovereignty, and where the aim was to introduce more effective decision taking. It was supported by this approach that Portugal defended in Maastricht the opening of common foreign and security policy to the majority vote. Even if this move proved to be unsuccessful, it left nevertheless a trail: the exigency of a dual majority, that requires a minimum number of votes but also a minimum number of countries for a decision to be approved (in Maastricht: 8 Member States out of 12; later 10 out of 15, after the last enlargement).

Today it is difficult to centre the discussion on the extension of the qualified majority on its own merits, as was done in the past, for two reasons: firstly, in view of the stated objective of the larger Member States in having the vote weighting scheme reviewed in their favour, as described in the introduction; secondly, because of the existence of codecision. Codecision was already, to a certain extent, an operation of re-weighting. The distribution of MEPs per country is closer to the logic of population proportionality, which means that small and medium sized states are less well represented there than in Council; and also, it can be hardly denied that the attribution of wider powers to the European Parliament has been accompanied to a certain extent by a regrouping of interests according to the nationality of MEPs, cutting across the logic of organised party groups on a European scale. The same discussion is hindered by the fact that there are no longer many fields left in unanimity likely to become majority, which makes it more difficult to find points of convergence between Member States whose approach to the problem on a sectoral scale has, in fact, always been a source of division.

The concept of “democratic deficit”, or “democratic legitimacy”, that worked-out in the case of the European Parliament, has been used as an argument in favour of re-weighting votes in favour of larger Member States. The argument is that these, relatively under-represented from the point of view of population differentials, could be in a worse situation with future enlargements, that will bring in States with smaller population numbers, and that a possible situation might occur in which qualified majority decisions were taken supported on less than 50 per cent of the total population of the Union. Underlying this approach is the principle that one person corresponds to one vote, unquestionable at national level, but difficult to transpose to a structure with the degree of integration that is to be found in the Union, in which the Member States retain their status of principal subjects, with a scarce common budget, where social policies remain basically

within the national framework and where there are no systems for distributing income more evenly. And even federal structures include forms of representation for their Member States immaterial of the logic of proportionality, based on parity. Apart from this, the data for the period in question (October 1995 to December 1998) show that more than 83 per cent of decisions were supported by countries representing 100 per cent of the population, as indicated before; and that in 5 cases only, from a total of 749, was 62.6 per cent of the population reached (when the lowest limit of the system in force is 57.6 per cent).

The extension of the qualified majority would interest above all, on the one hand, the countries benefiting, in mathematical terms, from a greater potential influence within the Council and the European Parliament; on the other hand, the countries that, because of their structure and level of development, could more easily integrate into the centre of common interest and, as a result, more frequently take their place within the majorities that in each case determine Community decisions, as those are basically the ones that would have least to lose and most to gain from the predicted direction impressed upon the different Community policies and approaches.

However, other factors come into play: the reality of the situation is not so simple, and it comes in different combinations. The decision to adopt a position within the average of Community interests does not depend only on the convergence of exogenous objective conditions; not always are the countries supposedly located at the "centre" those that are less likely to vote against; nor are all those that most frequently vote against, those that oppose extending the majority vote (although it is clear that in this case they seem to overvalue the method, accepting its consequences or even, almost paradoxically, defending a system that protects them from the not always desirable option to veto, when they show an uncomfortable tendency to isolate themselves); sectoral concerns clash with positions of principle, in many cases; and there are countries with interests that tend to be less "centred" (like Portugal) that not only have shown an open attitude towards the majority vote, but are also not among those that more often choose to vote against in Council.

It is interesting to note – also bearing in mind that, in unanimity, the larger Member States have the widest room for manoeuvre to impose, alone, a veto, and are those that more frequently have blocked decisions – that the three Member States that most often have voted against, and the sum of whose negative votes combined with abstentions was higher than that of any other Member State, are three of the largest States in the Union (during the same period, and in decreasing

order: Germany – 40 negative votes and 18 abstentions; United Kingdom – 22 negative votes and 9 abstentions; Italy – 22 negative votes and 7 abstentions; for the remaining countries, respectively: The Netherlands (20 and 3); Sweden (17 and 1); Denmark (14 and 3); France (9 and 6); Belgium (9 and 5); Spain (8 and 9); Greece (9 and 2); Austria (7 and 2); Portugal (6 and 9); Ireland (6 and 1); Finland (6 and 0); Luxembourg (1 and 5).

This picture shows an interesting view of the direction vote tends to follow within the Council, and some hints on the level of satisfaction obtained by each Member State in the decision-making process, on its objective negotiating effectiveness, and on the level of existing "decentering" inside the Community. However, it should be read with caution before drawing general conclusions, since the importance of decisions varies considerably; it depends on the range of each Member States' effective interests in EU business (and in a world scale), and the motivation present at the time of the vote does not always coincide or remain constant from State to State, sector to sector or time to time. There is no doubt that a favourable vote expresses approval, and a negative vote rejection, but apart from these obvious situations, where there is no room for hesitation, multiple factors can intervene and determine the decision. For example, in a situation in which a State would normally be inclined to express a negative vote it may decide to do otherwise:

- when the awareness of a higher interest prevails over a particular disadvantage (giving priority to the approval of standards, although considered imperfect, to cover a legislative vacuum is a typical instance of this type of situation);
- to avoid it being perceived from the outside that the negotiation has not been well conducted or successful;
- not to distress the presidency (particularly if other decisions underway, and comparatively more important, depend on it);
- to reduce losses and make some partial gains (the presidency can offer some concessions in exchange for a positive vote; and a presidency tends to remove from the centre of negotiation and from the construction of compromise a delegation whose behaviour shows signs right from the start that it will vote against the decision in question in any circumstance);
- to avoid creating a blocking minority;
- for tactical reasons, within the process of codecision: if it is thought that the position of the European Parliament will tend to further accentuate the negative as-

pects of a common position, it could be more advisable to abstain, so that there still remains room for negotiation and there may be greater credibility for invoking the solidarity of the Council before Parliament.

Inversely, there may be the temptation to vote against, even when the situation is not so serious as to justify it in principle:

- to credit upon discontentment;
- to express displeasure to the presidency for the way in which a particular negotiation was conducted;
- to mark a question of principle;
- to give the Community the onus of decisions that it prefers not to assume domestically;
- to create a blocking minority;
- for tactical reasons, within the context of codecision: when it is thought that the position of the European Parliament will favour the points of view of the State in question, it could be an advantage to vote against in order to maintain room for a positive vote to be eventually offered at the end of the process, in exchange for the Council's acceptance of some of the Parliamentary amendments that are of interest to that State.

IV – Predominant guidelines on which Portugal has based its action in Brussels

7. Without being exhaustive, I have tried in conclusion to identify and group the basic concerns that I feel have been more prevalent in defining Portugal's positions in the various centres of negotiation since accession. These help to reveal the underlying presence of a logic and continuity in what, on first analysis, might appear to be a simple succession of scattered decisions. The following could be recognised, not listed in order of importance:

- Integration and compatibility of interests and preferential relations that Portugal, for reasons rooted in history, maintains with other parts of the world; one good example to emphasise is the special case of Timor, that ran through all the formations of the Council for years, and was for Portugal a source of constant difficulty within a Community that rather recently understood Portugal's position and what was at stake in that part of the world; and also, among others, the African Portuguese-speaking countries, Brazil and Macao.

- Monitoring the development of a common foreign and security policy within limits compatible with the Atlantic and multi-continental dimension of Portuguese foreign action.

- Integration or safeguard of fundamental interests in sensitive areas where particular debilities subsist, and which tend to be out of line with dominant Community interests: textiles, agriculture and fisheries.

- To render compatible situations of disadvantage or backwardness due to a different economic development stage with the pace imposed by the Community in developing certain policies (internal market, the opening up to competition of protected sectors, certain aspects of social legislation, environment; the general concern was also present, particularly in this last area, to ensure that the characteristics of the countries of the South be integrated in policies that have their roots, and are guided, by the patterns of the North).

- Defence of economic and social cohesion as a pillar of the European construction (not only centred on the negotiation of the financial perspectives, of the competent regulations and of the distribution of structural funds, but also, across the board, in the defence of the place of cohesion among the remaining policies and in the reaction to the frequent attempts to divert or undermine its objectives to the benefit of certain sectoral interests).

- Defence of the Portuguese language within the institutions.

- Respect for the principle of equality among States, with particular attention to the situation of small and medium sized States, not only when the Treaty is revised but on a permanent basis, as the decision-making process is carried out.

- Defence of inter-institutional balance and respect for procedural standards, avoiding less transparent situations.

- Reservations about including in the Community structure models of "variable geometry" and of uncontrolled and excessive forms of flexibility; and when these cannot be avoided, attempt to restrict moves away from orthodoxy and to retain a presence within the different circles of EU development.

- Defence of a Community model in which the Portuguese specific characteristics are integrated and accounted for within the different policies, rather than looking for compensation or correction on the side-lines and in addition to the normal legislative flow; Portugal as a specific case has been invoked rarely and only as a last resource, when the proposed framework completely excludes it or contradicts it.

- Involvement in creating and developing the concept of European citizenship.
- More recent investment in implementing a Community intervention in the area of employment (employability) – and later in finding a new strategic model of development integrating competitiveness, information society and social inclusiveness – replacing a more defensive attitude in the past (particularly because of the risks associated with contradicting principles and interests established within structural policy).

Portugal and European Integration – Negotiations and Legal Implications

José Luís da Cruz Vilaça

Portugal lodged a formal request for accession to the European Communities on 28 March 1977, in accordance with Article 237.² of the EEC Treaty¹. The decision to apply for accession was made possible by the change in the Portuguese political regime brought about on 25 April 1974, and, above all, by the approval of a new Constitution in 1976, and was supported by the political forces representing the overwhelming majority of the population. This put an end to years of hesitation regarding the strategic insertion of Portugal in the European arena.

Certainly, contrary to Spain, Portugal had been present from the start in some of the international organisations created in the post-war period, under the shield of the USA (NATO, OEEC/OECD). However, the country's access to the democratic European organisations that were not purely commercial, was barred due to the authoritarian nature of the Salazar regime.

Therefore, when in the fifties, United Kingdom decided to stay out of the European Common Market and to create EFTA, Portugal followed this example, and was among the seven countries that signed the Stockholm Convention. Besides, EFTA, compared to the EEC, offered considerable advantages for Portugal, bearing in mind the country's state of development (which was at the origin of Annex G to the Stockholm Convention) and its special links with the Overseas Territories, safeguarded within the framework of that organisation.

¹ And corresponding articles of the two other Community Treaties.

Later, whenever Great Britain applied for membership of the Communities, twice boycotted by General de Gaulle, Portugal also asked for negotiations to begin, with a view to achieve a suitable arrangement. It was only in 1972 when United Kingdom succeeded in joining the Common Market, that the Portuguese government managed to sign an agreement with the EEC. The Inter-Ministerial Committee set up to examine the problem was of the opinion that an Association Agreement was highly desirable. Nevertheless, only a mere Trade Agreement, applied to all industrial products originating in EEC territory and in Portugal (excluding Portuguese colonies), could be obtained.

After 1976, the political situation stabilised and Portugal succeeded, even before applying for membership, in obtaining improvements in the commercial clauses of the 1972 Agreement and widening their scope to include technical, social and financial cooperation. Such forms of cooperation, contributed to boost the conditions to face the difficult negotiations that were approaching. These were accompanied by the conclusion of an agreement with the Community granting Portugal important "pre-accession aid", aimed at the strengthening of infrastructures required for economic development, as well as the capacity of national SMEs.

The accession negotiations were long and complex, not the least because they were conducted in parallel to those with Spain, and followed the pre-established, proven model used in earlier enlargements. The starting point for these negotiations was acceptance by the applicants of the so-called *acquis communautaire*, without jeopardising, whenever necessary, the setting up of transition periods and, exceptionally, temporary derogations, allowing for a gradual approach to be made until Community rules were fully applied.

At the same time, adjustments to the composition and functioning of Community bodies, as well as to applicable budgetary mechanisms, had to be determined.

The issues to be negotiated were divided into separate chapters (*dossiers*) according to their subject following, on the whole, the structure of the Treaty: customs union, free movement of workers and social policy, capital movement, right of establishment and freedom to provide services, agriculture and fisheries, transport, environment and consumer protection, regional policy, economic and financial matters, budgetary issues, the Community's foreign relations and institutional issues.

At the same time, triangular negotiations between Portugal-EEC-EFTA were taking place with a view to preparing Portugal's exit from the latter and to adapting the free trade agreements between the two blocs in order to maintain the level of liberalisation already achieved in trade between Portugal and its EFTA partners.

One by one, the different *dossiers* were opened. But it was only in 1982, using the technique of grouping *dossiers* into "packages", that the first agreements negotiated were concluded, subject to the global result of the negotiations for accession.

The negotiating teams, government and administrative bodies set up for the purpose in Portugal, some more effective than others, varied over time.

Responsibility for conducting the negotiations sometimes laid with the Deputy Prime Minister, who at the same time held the portfolio for Finance or for Foreign Affairs, assisted by a junior Minister for European Integration; in other cases it was the Minister of Finance who carried the political responsibility for the negotiations, assisted by a junior Minister or a Director-General; in one of the governments involved, a Minister for European Affairs had negotiations in charge, assisted by a junior Minister.

The structure of government reflected to a large extent the priorities selected. Were the diplomatic aspect to be emphasised, the logical solution was to give Foreign Affairs the key role; when the urgency of domestic adaptations was considered more important, then the move was to the Ministry of Finance.

Furthermore, when a Deputy Prime Minister assumed responsibility for European Integration affairs, the political importance of whoever was responsible for the negotiations was reinforced, while improving inter-ministerial coordination.

Whether the junior Minister responsible had a seat in the Council of Ministers or not also indicated the political importance attached to the accession process. At the same time, it also determined how efficient was the performance of the negotiators in handling the work assigned to them. Indeed, should the leader of the negotiating team and responsible for coordination on the ground meet regularly with different members of Government at the Cabinet meetings, he would be able to understand, discuss and influence their positions, rather than having only indirect contact with them through their lower level representatives.

Technically, coordination between the different State departments was ensured by an *Inter-Ministerial Commission for European Integration*, chaired by a junior minister and comprising representatives of the different ministries, as well as of the Autonomous Regions of Madeira and the Azores. These representatives expressed the negotiating positions of the respective departments and were responsible for preparing documents to be submitted to Brussels on sectoral matters.

A *Secretariat for European Integration*, including specialists from the different areas being negotiated, provided direct support to the junior minister.

To complete the Portuguese negotiating machine, the *Mission to the European Communities* provided the interface with the services of the European Commission, as well as with the negotiating teams in the Commission and in the Council, and with the Permanent Representatives of the Community Member States.

There was also an *Advisory Committee*, where the representatives of the social partners had a seat – Confederations and Associations for Industry, Trade and Agriculture and the unions. This Council was consulted regularly on the more important aspects of the negotiations. The work of this Advisory Council was particularly useful, not only because it heard the opinions of the different social and economic players, but also because it could give the Portuguese negotiating positions the indispensable “rear guard” backing.

But, whereas one of the technical and political difficulties was the fact that certain ministries were not sufficiently sensitive to the requirements of the integration process, listening to the opinions of the social partners also fell short of expectations. Indeed some of them lacked the necessary preparation, and sometimes adopted purely ideological attitudes in dealing with the specific problems addressed in the negotiations.

Consequently, one of the major concerns expressed by those responsible for the accession negotiations was that the country should be prepared to meet this challenge. To this end, training and information campaigns were launched throughout the country in cooperation with trade unions and industry organisations.

Besides, information programmes on EEC were broadcast on national television and university post-graduate courses on European Integration were set up in the Faculties of Law and Economics and raised considerable enthusiasm. At the same time, young Portuguese graduates were encouraged to attend doctorate or post-graduate courses on European Affairs in European universities (France, Great Britain, the Bruges College of Europe, the University Institute of Florence, etc.).

Supported by diplomatic initiatives at the highest level – the Prime Minister, accompanied by those members of government most involved in the negotiations, made several tours of the European capitals to get political backing from his future partners – the negotiations were concluded and the Accession Treaty was signed in June 1985.

Portugal obtained several derogations or transitory periods – some justified, others of more than doubtful utility – in agriculture, right of establishment [travel and tourism agencies (!), dubbing and sub-titling films (!)], iron and steel, the banking sector, foreign investment and in the management of uranium reserves.

Conversely, Portugal had to agree to restrictions in “sensitive areas”. The severest restrictions Portugal had to accept were on exports of textiles, tomato paste, wines and canned food, as well as on the mobility of workers. The latter was imposed for periods of 5 to 7 years, as a rule, with a maximum of 10 years for Portuguese immigrant workers in Luxembourg, or who intended to move there.

In practice, these restrictions appeared to be excessive and not sufficiently justified, and therefore were lifted before their deadlines had elapsed.

At the same time, a survey was carried out in collaboration with the European Commission on “secondary legislation” in force and the changes it would bring about in Portuguese legislation in a wide range of fields.

Accession to the European Communities did have serious implications for the Portuguese legal framework. This was inevitable, bearing in mind the two fundamental principles which, in accordance with the Treaties and the case law of the Court of Justice of the European Communities, prevail in relations between the Community legal system and national legal systems: *Direct effect and Primacy of Community law* over national law.

In several important cases, the Court of Justice had occasion to point out that the above-mentioned principles apply equally in relations between Community law and the Constitutional Law of Member States.

Initially, such an approach gave rise to reluctance on the part of some constitutional courts or other legal authorities with jurisdiction over the control of the constitutionality of laws. Such was the case with the constitutional courts in Germany and Italy, and with the French *Conseil d’État*. But, with time, they all came to recognise the special features of the Community legal system, which could gradually affirm and consolidate its autonomy.

In Portugal, the question of compatibility between the 1976 Constitution and the Community legal order was widely discussed in doctrine already at the time when the original version of the Constitution was in force. It was discussed mainly in terms of compatibility between “models”, thus comparing the model implicit in the Portuguese “economic constitution” and the so-called “EEC economic model”.²

Basically, there were two extreme positions: one³ considered the Portuguese constitution to be fully compatible with the economic constitution of the

² I summarised the controversy at the time in an article published in *Cadernos Europeus* by the Centre for European Studies of the *Instituto Amaro da Costa*, in which were included the Minutes of the First International Seminar on Portugal’s Accession to the European Communities (1984).

³ The argument defended by the constitutionalist Jorge Miranda.

EEC, due to the “anaesthetising effect” of a certain number of the more ambiguous provisions in the text of the constitution; the other⁴ considered that the Portuguese Constitution enshrined a political-economic model incompatible with that of the EEC and, therefore, with the requirements arising from our integration. Several intermediary positions laid between these two extremes.⁵

To eliminate the main formal obstacles to accession, a constitutional amendment in 1982 added a § 3 to Article 8 in which: “*Rules made by the competent organs of international organisations to which Portugal belongs, apply directly in national law to the extent that the constitutive treaty expressly provides*”.

This addition was, however, far from resolving the whole problem. Without going into the questions of the utility or need of the provision, as well as of the cumbersome terminology used in it, mention should be made to the fact that the paragraph in question included the adverb “expressly”. This raised doubts as to the importance attached by the Constitution to the case law of the Court of Justice which recognises direct effect for Community provisions (such as the *directives*) without this being *expressly* laid down in the constituting treaties.

Consequently, the 1989 amendment deleted the adverb. But this did not help clarify the understanding of the constitutional text on another problem, i.e. the hierarchical relations between Community law and national law and, therefore, the question of primacy of the former over the latter.

Nevertheless, although it had smoothed out some of the more obvious ideological aspects of the text of the Constitution, the 1982 amendment did leave behind many signs of the anti-liberal, bureaucratic and State control approach typical of the revolutionary period, opposed to the market and geared to Marxist inspired socialism. It was the later amendments that finally aligned the Portuguese Constitutional system with the political-economic model established by the treaties.

The Portuguese Constitutional Court analysed the question of “primacy” in the first judgement it was requested to give a ruling on the relations between the two legal systems (Case nº 154/89, judgement nº 163/90 in Section II, of 23 May 1990, – *Campo da Fonte do Piolho*). In this judgement, the Constitutional Court made an in-depth analysis of the preliminary ruling procedure (art. 177 of the EC Treaty⁶), as instrumental to the primacy and the uniform application of Community law. It also

analysed the nature and limits of the obligation to refer a question for preliminary ruling and expressly considered itself bound by this obligation.⁷

With the prospect of the Treaty of Maastricht coming into force, several Constitutional provisions were amended or added in 1992:

– Article 7: a § 6 was added authorising the Portuguese Republic, under condition of reciprocity, to “*enter into agreements for the joint exercise of the powers necessary to establish the European Union*” having due regard for the *principle of subsidiarity* and the objective of *economic and social cohesion*;

– Article 105 (which became Article 102 after the 1997 amendment): the alteration aimed at adapting the powers and independence status of the Bank of Portugal to the new context of EMU;

– Article 166 (currently Article 163), subparagraph f), and Article 200 (currently Article 197), § 1, sub-paragraph i): on the parliamentary powers (of the *Assembleia da República*) to monitor acts of Government within the framework of the process for implementing the European Union.

Finally, during the 1996-97 IGC, that led to the Treaty of Amsterdam, amendments were made to:

– Article 102: “*The Bank of Portugal, in its capacity as a central bank, shall carry out its functions in accordance with the law and with the international rules to which the Portuguese State is bound*”;

– Article 112, § 9: new paragraph added, on the transposition of Community directives into the internal legal order, by law or decree-law, depending on the case;

– Article 115, §§ 4 and 5: on the possibility of submitting to referendum issues of relevant interest which must be the subject of international agreement, in principle within the jurisdiction of the *Assembleia da República*;

– Article 161, sub-paragraph n): power of the *Assembleia da República* to give its opinion on matters that are pending decision within the organs of the EU;

– Article 164, sub-paragraph p): exclusive jurisdiction of the *Assembleia da República* to legislate on rules concerning the appointment of members of EU organs, except for the Commission;

– Article 227, § 1, sub-paragraph x): participation of the autonomous regions in the process of implementing the European Union.

⁴ Shared by authors such as Paulo Pitta e Cunha, Fausto de Quadros, Manuel de Lucena and Isabel Jalles.

⁵ Among these were the positions then taken by Marcelo Rebelo de Sousa and Jorge Braga de Macedo.

⁶ Currently Article 234.

⁷ On this decision, see my article “Droit constitutionnel et droit communautaire : le cas portugais”, *Rivista di Diritto Europeo*, nº 2/1991.

Penetration of Community law in Portuguese law was however not limited to constitutional level. Secondary legislation and regulations on an endless number of activities were submitted to Community imperatives and adjusted to the demands of integration.

This has been the case, for example, with taxation (introduction of VAT), environment and consumer protection, intellectual property, public procurement and advertising, competition policy and State aid, transport, insurance and banking, telecommunications, energy and other utilities sectors.

In some branches of activity, covered by common policies, decision-making moved, in what was essential, to Brussels, the national authorities being limited to the execution of EC rules and to monitoring compliance with them and ascertaining that objectives defined by those rules are met. In this category are agriculture (submitted to the CAP), fisheries, foreign trade relations (common commercial policy) and, with gradual but rapid implementation of EMU, monetary, exchange and interest rate policies.

At the same time, regional, social, vocational training, infrastructure and SME support policies, and after the Single Act and EU Treaty were approved, policies for culture, public health, research and technological development, benefited from Community support, as defined in the Treaty and in secondary legislation.

In addition, questions of common interest involving justice and home affairs (asylum, external border controls, immigration, combating drug dependence and drug trafficking, combating fraud, terrorism and other forms of international crime, police cooperation in civil and criminal matters and customs cooperation), subject to the mechanisms of intergovernmental cooperation as part of the so-called Third Pillar of the Treaty of Maastricht, were, at least partially, submitted to the Community rules by the Treaty of Amsterdam.

That is, these areas can no longer be viewed as though Portugal, or any other Member State, still had unrestricted legislative jurisdiction, and unlimited sovereignty not shared with its EU partners. All of this also means that in 15 years Portugal was forced to relinquish its introverted, protectionist attitude that for decades marked the life of the nation and to get used to life in an open European area. Open, meaning not only to trade in goods, services and capital, as envisaged from the beginning in the EEC Treaty, but also to the free movement of persons within the *Schengen Territory* (an area of freedom, security and justice), including citizenship rights that are not only economic and social, but also involve electoral

participation, diplomatic protection, the right to petition and to appeal, as well as judicial protection.

At this respect, one last, important word must be added. It is impossible to speak of an effective judicial protection of individuals in the Community legal framework without first having created, within each Member State national legal framework, the capacity to apply it and to uphold the rights that individuals (citizens and companies) draw from it.

The Portuguese experience in this field is elucidative – this time negatively. In fact, information is decidedly lacking as is the preparation of Portuguese magistrates in the different areas of Community law. And the same can be said for most lawyers, who should be questioning the application of such law in the national courts.

Therefore, frequently, important interests and legitimate rights end up without protection because the courts systematically avoid the application of Community law and, when it arises, most of the time they refrain from referring a question for preliminary ruling to the EC Court of Justice.

It follows from the foregoing that the new candidates to accession should attach major priority, as early as possible, to preparing national jurists in matters of Community law, an area new to them, and one that requires much care in training to the highest level.

Creating the Internal Market: The Portuguese Experience

Vitor Martins

Introduction

With the implementation in 1993 of the single market, European citizens began to conduct their day-to-day affairs within a unified area no longer divided by internal borders. The project that created this single market had been both multi-faceted and coherent from the start; not merely the sum of several hundred individual directives.

Today it is not difficult for us to understand the extraordinary scope of the project. Seen in a historical perspective, it swept away frontiers, the persistent – and sometimes painful – relics of the centuries of war and division that pitted Europeans against Europeans; whilst economically, it tore down barriers entrenched by long years of protectionism and introversion.

Clearly, the internal market was to everyone's advantage. Nonetheless, its full impact was initially felt by business. For this reason, industrialists played a decisive role: their successful response to the challenge of the internal market was also Portugal's.

At Community level, it was necessary for the Portuguese government to negotiate waivers and transitional measures that would enable the more vulnerable sectors of the economy to adapt smoothly to the new order.

It were these industrialists who masterminded the transition, making full use of the specific support available to them, and of the broad new range of opportunities provided by Community membership.

In this way Portugal as a whole adapted to the new European situation, resolutely defending its own interests; always continuing, however, to observe the rules of the game and to respect the interests of the Community at large.

The Portuguese approach was always underpinned by an awareness that the challenge of 1992 could only be met with complete seriousness and honesty. Experience has shown this to be the correct way to build up the critical mass required for modernising the country.

Portugal's accession to the European Community on 1 January 1986, took place at a time of change, coinciding as it did with the final negotiations of the Single European Act. The common market outlined in the Treaty of Rome was about to be reinforced, becoming the Internal Market outlined in the Single European Act, concluded at the Luxembourg meeting of the European Council in December 1985.

Portugal was therefore confronted by the challenge of making a fast approach to a moving target: firstly there was the need to absorb the main substance of the Community existing at the time of accession and to integrate Community structures in areas of common jurisdiction; and secondly came the overriding need to keep up with the rest of Europe in implementing the Internal Market.

All this constituted a tremendous challenge for a small country with limited material, administrative and human resources, and with a strong attachment to protectionism.

Strategy

The first major option was necessarily political. It was decided right away in 1986 – and this was to mark irreversibly the style of Portugal's accession – that the Internal Market was a major commitment and that the country would have to be ready to play a full part in the dynamics of this border-free area, avoiding the temptation to evade or to postpone structural challenges.

The objective was clear: Portugal had to be in the front line in the implementation of the European single market. This objective meant concerted action on two fronts: externally, in negotiations with Brussels, and internally, implementing structural reforms and legislative and administrative measures imposed as a result.

Essentially, summarising the radical guidelines that Portugal had to follow, the country was thrown into the process of building the single market with a view to increasing its credibility among its partners and the Community institutions, in what was the first test. At the same time, on the domestic front, reforms had to be imple-

mented, while overcoming obstacles and bureaucratic, corporate and conservative resistance, still very strong at the time of Portugal's accession.

The European Commission – a strategic partner

Portugal could not aspire to success if Europe failed. Portugal's fundamental interests were to be secured at European level, as much for economic as for political reasons. This is easily understood when one recalls that four fifths of Portugal's trade was with the European Community, and also bearing in mind the country's size and geographic position.

Therefore the strength of Europe was also our strength. This made it inevitable that our fundamental partner and front-line ally would be the European Commission. Today the importance of the role of the Commission in achieving our objectives is clear. The Commission was a decisive institution on whose jurisdiction, reliability and creative drive depended our success and the success of the European project.

Throughout the first nine years of European integration, Portugal never viewed the Commission as a "European government", but rather as an institution with a vast amount of power for taking effective, autonomous action that contributed towards a climate of confidence among all the partners.

The acceptance by the European Commission of Portuguese priorities gave us support on several fronts including the recognition of Portuguese potential in the textile and clothing sectors, the implementation of POSEIMA, providing special support to the ultra-peripheral regions of the Azores and Madeira, including the Portuguese initiative *The local dimension of the Internal Market*¹ in the white paper on the Internal Market, support for the Portuguese proposals on trans-European networks² and also defence of Portuguese interests in the Delors II Package.

Economic and Social Cohesion

Strengthening European integration by implementing a true border-free area could not be a credible objective if this were to be no more than economic in scope and not include the political and social dimension. Hence the reason for

¹ Submitted to the European Council in Corfu.

² Which became part of the Treaty of Maastricht.

what became known as *Economic and Social Cohesion*. Hence the inevitable relationship between this objective and creating the Single Market in 1992.

This close relationship assumed increasing importance as the decision to establish the single market came almost at the same time as the decision to enlarge the Community to include Portugal and Spain. These countries had *per capita* incomes lower than the Community average, and enlargement was bound to accentuate existing disparities, although at the same time providing a new area for growth and add new impetus to the European project.

Reinforcing economic and social cohesion was not viewed as mere compensation to the less developed regions for the implementation of the Internal Market. Quite the contrary: the potential of the Internal Market would be fully realised only when all the regions in the Community benefited from it and contributed to it. Strengthening economic and social cohesion therefore became a necessary condition for promoting the European economy and putting the virtues of the Internal Market to work.

From this point of view reducing the structural weaknesses of the less developed regions had a positive effect on building the Internal Market and on driving the Community forward, as a whole, on three levels.

Firstly, as a result of more growth potential for the less developed regions. The fact is that while the more advanced regions had saturated markets in several productive segments, with low growth rates, in the less developed regions many needs remained to be satisfied, promoting more demand for goods and services, particularly as incomes rose.

Secondly, developing the economically weaker regions had a significant knock-on effect on the rest of the Community. The less industrialised regions tended to have fairly high import rates, due to the lack of a sufficiently dense, coordinated industrial base, which meant that increasing demand was met, to a great extent, by importing manufactured products from the more industrialised centres.

Finally, reducing structural imbalances and creating the conditions for investment in the less advanced regions contributed towards improving and rationalising the allocation of resources within the Community.

Bilateral diplomacy

Besides the principal Community institutions (the Commission, the Council, the European Parliament and the Court of Auditors), there are other bodies which,

for their contribution to the process of building Europe, also deserve attention. Consequently their work had to be monitored by specialists and diplomats trained above all in European issues.

This was the driving force for much of the success of negotiations as a whole, and in particular those involving the Internal Market. Furthermore, it was quite impossible to manage and negotiate *dossiers* without having someone permanently in touch with the institutions with decision-making or purely advisory authority, while working in close coordination with the capital, in this case, with the services under my own office, and who could speak on behalf of Portugal.

While working to provide our Permanent Representation with an adequate number of specialists and diplomats, Portugal also came to attach more importance to the qualifications of our ambassadors, appointing to European, and other postings, diplomats trained and experienced in European and Community affairs. This gave a degree of visibility to our work in Community terms and provided us with important information on how a given issue might be viewed in the different Portuguese diplomatic observation posts.

But our diplomatic activity reached its zenith in preparing for and conducting the first Portuguese Presidency of the European Community during the first half of 1992.

Through guidelines issued by the Government, through the Secretary of State for European Affairs and the Directorate-General for Community Affairs, specialists and diplomats played a crucial role in conducting the multi-disciplinary tasks involved in our handling of the Presidency of the Council of Ministers of the European Community, which was conducted in the light of Community solidarity and under the banner of *On course for European Union*.

The achievements

The institutional aspect

Putting into practice the institutional model that we had built provided us with speed and efficiency. Indeed, it was fundamental to equate constantly the opinions of all those involved in the process of building the Internal Market with the need to meet deadlines and to keep coordination effective.

It was not an easy task because it entailed the coordination of a variety of interests, different ministries and different working speeds; and all of this character-

ised by an administrative machine that was both cumbersome and bureaucratic. For our work to be a success an additional effort at coordination was required.

This meant the task had to be concentrated in a single governmental department: the State Secretariat for European Affairs.

It was my own department that dealt with this challenge, both internally and externally. All the work of technical coordination among the sectors, as well as coordination with our Permanent Representation in Brussels, was done by the Directorate-General for Community Affairs which, dependent on my office, allowed me at any given time to know what point negotiations had reached in Brussels, the positions adopted in each ministry, situations likely to give rise to dispute and also those positions adopted by each sector of activity as changes took place; and there were many.

The efficiency at which we aimed was very obvious in the area which was most exposed to comparison with our partners – the transposition of Directives. We were in the front line of States meeting this requirement, a clear indication of the importance we attached to “Objective 92” and the degree to which we were able to put the objectives established into practice.

Dialogue with the different ministries was constant among the specialists at the Directorate-General for Community Affairs, and many informal sector meetings were held to adopt a national position with respect to the responses that had to be prepared for the negotiations.

However, the agent for coordination was the Inter-ministerial Commission for the European Communities³, which met weekly and which I chaired. This Commission, on which all the ministries and governments of the Autonomous Regions had a seat, coordinated the Internal Market. It was also an extremely useful instrument, and this is why I decided to dedicate some of the meetings exclusively to horizontal issues that arose in the Internal Market.

However, this whole machine that has just been described would be incomplete if this new situation remained unknown to the public. This was, after all, the start of the long-awaited Citizens' Europe, where for every reason these same citizens could not be excluded from the ocean of changes in which the country was submerged.

With this in mind a department was set up under my office known as the “Secretariat for Europe 92” which, as its name suggests, was to deal exclusively with the affairs of the Internal Market.

³ Now Community Affairs.

The office was responsible for facilitating and coordinating information on the implementation of the Internal Market: the creation of a single, border-free area for 320 million citizens, free of any obstacles between the 12 Member States of the European Community.

With these aims the Secretariat created a free telephone line for citizens, in order to provide information on all legislative measures, including those adopted only by the Community and those already transposed by Portugal. Among the many awareness initiatives a particularly important one was the series of seminars, “Preparing for 92”, which aimed to make the implementation of the Internal Market known to the regions. These seminars were wide-reaching because they took in the whole country both from the socio-economic and geographic points of view. Another measure implemented by the Secretariat was the informative bulletin known as “Ninety Two” which was a vehicle for projecting the European Community with a view to preparing the Internal Market. A radio programme was also created, known as “Objective 92” and targeted Portuguese emigrants. Finally a “Europa 92” award was introduced for the best piece of research and the best article by a journalist on the Internal Market.

In regard to intra-institutional policy, coordination was handled by the government. On a monthly basis a specific Council of Ministers was held for Community affairs, in which internal and external strategies for government action as a whole for Europe were prepared and in which Portugal's position was outlined to its Community partners.

A committee known as the “Committee for Community Affairs” was created by the *Assembleia da República* (Portuguese Parliament) for inter-institutional coordination and which monitored government policy in this area.

Legislative harmonisation

The coordination of our legal system with that of the Community was far from easy, but in retrospect it went well. This was the result of the determination that placed us among those Member States to have transposed the largest number of Directives.

We made radical changes to our internal legislation and considerable restructuring was introduced to company law and public procurement, opening the way to legislative harmonisation that made freedom of establishment feasible, with all the inherent market consequences.

There were cases in which the content of Community law was similar to domestic law, for example, legislation on contractual clauses. However, in many circumstances we were obliged to negotiate with the European Commission a stage-by-stage timetable for harmonisation in order to allow specific Portuguese features in the different sectors to gradually adapt, particularly in extremely sensitive areas such as fisheries, agriculture and the social and industrial areas.

We enjoyed waiver periods in several areas due to domestic susceptibility that required time to make the necessary adjustments, as in the case of insurance and public procurement.

Radical changes

Our participation in the Internal Market resulted in true modernisation that directly or indirectly affected the different levels of Portuguese life. It was a time of major reform.

Foremost was the reform that from its implications on the lives of individuals led to many others – reform of public administration – a fundamental item in changing the practices and legislation associated with the need to implement the Internal Market.

At its basis was the creation of the Sub-secretariat of State for Administrative Modernisation, a Government department under the control of the prime minister. This department made it possible to introduce changes to the administrative machine, gradually making it more receptive to those using it and to the staff who saw new possibilities for career enhancement.

Work then began on computerising almost all public services, whilst regular administrative processes were simplified, to the benefit of industrialists and the public as a whole. Certain services until then only available in some towns and cities were decentralised.

Essential educational reforms were introduced, facilitating modernisation and progress at all levels.

Within this context technical-vocational training was introduced and access to information technologies was improved in secondary schools.

Vocational training, seen as instrumental for corporate development, was greatly enhanced with the support of the European Social Fund, and important steps were taken towards creating a more skilled work force.

However, the work done at all levels to modernise the country also aimed to accelerate reforms that led, for example, to a gradual policy of privatisation and the liberalisation of certain services, capital and public procurement, as well as of the banking system which, thanks to the Internal Market, found it could operate even better in the market, thus providing an improved service to the consumer.

It is essential to remember that the changes that were taking place in Portuguese life were always the result of a dual approach that involved domestic determination and the support of Community initiatives. Within this context, PEDIP, the European Programme for the Development of Portuguese Industry, adopted in 1988, was particularly important. It consisted of a truly integrated programme for supporting industrial development, and was unique in Europe, playing an important role in developing small and medium sized companies.

Apart from a great deal that had already been done, the country had to be thoroughly opened up by installing communications infrastructures. This was a unique achievement in modern Portugal and an historic landmark that added value throughout the country and reduced isolation and introversion.

General impact

The Internal Market began in 1993 in a climate affected to a certain extent by the upheavals of the European Monetary System and by recession in the European economy. Although around 95 per cent of the measures in the White Paper were adopted, it must be conceded that the free movement of persons was not achieved: this was the lacuna in the implementation of the border-free area stipulated by the Single European Act.

However, the effect in Portugal of the gradual implementation of the Internal Market was positive not only for its social effects but also for its influence on production and on the economy as a whole.

Therefore, besides achieving foreign credibility, Portugal became a competitive market, and the quality of exported products became an added value for those companies that knew how to draw benefit from the changes brought about by the Internal Market.

The Internal Market had a ripple-on effect on our economy, because it gave Portuguese companies a broader, far less regulated economic framework, and greater access to resources, methods and services that until then had not been available to most of our entrepreneurs.

In this context the key sectors for economic growth were very different from those that had led the expansion of the sixties and seventies. With the Internal Market, Portuguese companies gained from technological re-equipping or productive restructuring, backed up by substantial investment that provided them with gains in productivity, quality enhancement and, of course, improved management.

Thanks to the new Portuguese industrial scene, new companies began to provide better quality. They also began to diversify, having realised the importance of investment in technological research and development, fundamental factors for achieving economies of scale that improved their competitive edge.

In all these ways, Portugal met the challenge of the single market. Portuguese companies were enlarged and enhanced, which led to an improved trade balance with our European partners. We ceased to produce cheap goods, and opted for giving priority to quality in our exports.

However, not everything was as positive as expected in implementing the Internal Market. For example, the impact of the single market on Portuguese agriculture was negative, due to our weakness in this area compared to our Community partners.

With small production units, an excess of mono-cropping and weak cooperative organisation, Portuguese agriculture was poorly placed to deal with the changes wrought by what was to become the Common Agricultural Policy in 1992.

Another point on which we vacillated was in the services sector. This was due to aggressive competition, particularly in the insurance and financial sectors, caused by the movement of capital. Also problematic were the transport, telecommunications and equipment sectors.

Consumer policy was given special attention in terms of control, but consumer interests were not always safeguarded when it came to complying with product health, safety and quality standards.

For the Portuguese, the 92 challenge meant economic and social development, in the spirit of true solidarity with the Twelve, and in a constant effort to strengthen political, economic and social cohesion.

The European Community is a truly dynamic area in which we have created the conditions for equality of opportunity for all citizens, without overlooking the two-pronged approach of economic development and social solidarity, the essential basis for a framework of priorities founded on social justice and human dignity.

Lessons from Portugal's Long Transition to Economic and Monetary Union¹

Francisco Torres

Introduction

As in most other EU countries, perhaps even more so in the case of Portugal, the challenge of Economic and Monetary Union (EMU) has worked as a mechanism for economic stabilisation and as a pre-condition for structural reform and long-term development. It has created the necessary consensus to overcome specific interests in the pursuit of social and economic welfare.

The political consensus took however long to build – much longer than in countries such as Ireland or Spain – and it faced a loud opposition – a time-lagged mimic of France's – but seems to be mature with respect to EMU and, again very slowly and clearly behind most EU countries and some candidate countries, also developing with respect to other goals of European integration, such as environment quality, consumer protection, internal social cohesion, all pre-conditions for long-term development.

In spite of being many times referred to as a success in terms of European integration, namely with regard to EMU, the political merits of the Portuguese experience are, in my view, in general over-estimated. In fact, until 1992, the ambiguous Portuguese response to the need for institutional reform and European integration

¹ Earlier versions of this paper were presented in Ponta Delgada at the Universidade dos Açores, in Zagreb at the European Integration Forum, in Brasília at the occasion of the Economic Session of the Congress Brasil-Portugal 2000, in Lisbon at the ISG, the ISCTE, the CIJD and the Diplomatic Institute, and in Budapest at the University of Economic Sciences. I wish to thank discussants and seminar participants for useful comments.

was mirrored by complete discretion regarding the future course of exchange rate policy and the timing of monetary reform.

It was only with the Country's first presidency of the European Council in 1992 that Portugal's attitude towards European monetary integration changed and the escudo joined the ERM. It proved decisive however that not only ERM membership but also full convertibility of the escudo had taken place (or at least had been decided upon, in the case of the dismantling of controls) and to have had a clear economic and political strategy for achieving macroeconomic convergence before the European recession of 1992/93 and the outbreak of the ERM crisis. The maintenance of the course of policy (compatible with the objective of EMU participation) throughout the heights of the European recession in Portugal (1993/94), the electoral year of 1995 and the two first years of a new legislature (1996/97) with a minority Government with a different political colour was only possible thanks to that very political decision.²

In the next section I present what I considered³ the benchmark argument for Portugal to join a monetary union that was based on institutions delivering price stability – a means to implement a solid strategy of sustained economic development – and I discuss how it was perceived by policy makers and the public. The third section focuses on the politics of macroeconomic stabilisation. In the fourth section I look at the change of regime (to exchange rate convertibility and ERM participation) and political consensus building, regarding EMU and a new policy stance on European integration. The fifth section considers the evolution of political and policy misgivings on EMU.⁴ The sixth section analysis trade integration and the similarity of economic structures between Portugal and *Euroland*. In the seventh section I look at different institutional features of the Portuguese economy, focusing especially on the flexibility of the Portuguese labour market and the unemployment problem in a comparative perspective but also discussing the change in the monetary authorities' institutional role and competition policy. The eighth section gives an overview of other developments of the Portuguese economy such as: the slow change of attitude towards structural funds, pre-euro exchange rates and compliance with the convergence programme and the stability pact.

² The importance of that decision has only been recognised by the main political forces *a posteriori*.

³ See Torres (1989 and 1990) for a presentation of this argument as a policy proposal. See also Torres (1996 and 1997) for a more thorough discussion.

⁴ See also Torres (1998a).

Understanding the argument of adopting a credible monetary constitution

Joining a monetary union that is based on institutions that deliver price stability is, as stressed by the modern political economy literature, probably the best way to implement a solid strategy of sustained economic development. The reason is that this option also precludes many of the transition costs (the output losses of a disinflation strategy) of such a regime change. Fixed exchange rates, unlike other policy targets, are easily observable by the private sector but also easily implemented by the authorities.⁵

With a single currency, the authorities raise the political costs of inflation because their anti-inflation commitment is constantly monitored by the private sector and any different behaviour would imply a loss of competitiveness for the tradables sector. Accordingly, one could argue that, as a tendency, high inflation countries tend to gain more than low inflation countries by sharing their monetary autonomy in a common monetary institution. Eliminating inflation in this way, abolishing different currencies, does away with the need to waste resources on hedging against exchange risks. A common monetary institution that delivers price stability is therefore a welfare improving mechanism in a double sense.⁶

Later on that argument was contested by "Keynesian" economists and eurosceptics in general. That loud opposition did not affect the course of action (the convergence programme) towards EMU but it did divert the attention of the political and economic debate from other important reforms geared towards sustainable development, where Portugal is clearly lagging behind the European average, to the merely rhetoric issue of real versus nominal convergence.⁷

This "Keynesian" view claimed that the exchange rate was still a very important adjustment mechanism not only in the case of unexpected asymmetric shocks but also in the face of foreseen developments such as world trade liberalisation and EU enlargement to central European countries. It was argued that regions characterised by persistent differences in productivity growth or even by any other type of persistent differences as well as different structural characteristics of the economy (non-wage labour costs, savings ratios, or demographic structures) should not form a monetary union.⁸

⁵ See Torres, 1989 and 1990.

⁶ See Torres, 1996, for a discussion. Other arguments, for the case of low inflation countries in the context of EMU, are provided by Eichengreen and Ghironi (1996).

⁷ See Torres, 2000.

⁸ For a thorough analysis of these issues see Torres and Giavazzi (1993), namely the synthesis of Casella (1993).

Although these are problems unrelated to the exchange rate regime, the “economic” discussion around EMU in Portugal centred around these very issues.⁹ After the European recession of 1992/93, real versus nominal convergence became the most popular line of discussion—not only amongst economists but also amongst politicians and political and economic commentators. Many of those politicians and commentators found it also politically interesting to oppose what they called grey technocracy and/or monetary fundamentalism.

The root of one of the main misunderstandings about the entire process of monetary unification in Portugal and some other EU countries was, in fact, that many people tended to see it as a technocratic obsession and/or an ideological defence of the market. At the same time some of the forceful opponents of EMU happened to be technocrats (sometimes diplomats, central bank employees and even eurocrats) and/or ideological free-marketeters (as for example conservative economic advisers and independent economists in the UK or the group of 155 economists in Germany that signed a manifesto asking for a delay of the entire EMU).

In my view, adopting a credible monetary constitution is a means of doing away with the primacy of monetary policy over more important concerns facing society. For countries, such as Greece, Portugal, Spain and even Italy (and now all the applicant countries), with less developed fiscal and monetary institutions, EMU was a means of getting rid of national currencies and all the economic jargon that goes with them, typically the excuses technocrats find to cling to power and implement all kinds of mercantilist policies in the name of short-term real convergence. In the case of Portugal, these very policies, that have been pursued until now¹⁰, implied a sharp deterioration of social cohesion and quality of life, undermining the long-term (sustainable) real convergence with the most developed regions of Europe.

During the entire convergence period, few people presented EMU as a desirable political reform instead of an external constraint. For a long time, most politicians, bureaucrats and even economists, just referred to it, first, as an objective rather unlikely to take place and, later on, as an unavoidable development of the Euro-

pean Union.¹¹ Presented in this way, EMU could have been (and in fact it was at different periods) easily blamed for all the policy errors made by national governments, monetary authorities and other national or European institutions.¹²

The decisive argument was that, in a multi-speed EMU, it would have been more difficult for the catching-up countries to converge, in the sense that by being left out of EMU's third phase they risked becoming more vulnerable in the international financial markets. There was also the perception that the core members would have been reluctant to enlarge the club (formed by *euroland* founding members) both in the monetary sphere and in other domains of European integration.

The politics of macroeconomic stabilisation

In the beginning of the 1980s, while Europe was stagnating, Portugal grew at an average annual rate of 3 per cent but the terms of trade deteriorated at an equivalent pace. In 1983-95, an adjustment programme with the International Monetary Fund (IMF), negotiated by an emergency cabinet, a PS-led coalition with PSD known as “bloco central”, restored the external balance. Negotiations with the European Community concerning the accession of Portugal were also completed during the same period. By 1985, inflation was reduced by ten percentage points and the current account was again in surplus. Public sector imbalances were however not tackled: the public debt kept rising until 1988 (to a peak of almost three quarters of GDP).

After the IMF adjustment programme, new elections and entry to the EC, the successive governments of the PSD pursued a strategy of gradual convergence toward Community standards. Formally the strategy comprised a sequence of adjustment programmes. The character of each of these programmes and the extent to which they were implemented (from 1985 to 1995) reflected the evolution of factors such as a new amendment to the Constitution, external economic conditions, integration with the European Community, the model of integration adopted by the government and the electoral cycle.

¹¹ Depending on the perspective: the only way of tying Germany into the European Union, achieving more political integration, accomplishing faster enlargement to the East or, simply, maintaining access to the structural funds.

¹² Unfortunately, some still see it as an unavoidable external constraint that goes together with an exogenous political objective to which their political leaders have converged. A good example, discussed below, was the cross-party political resistance to enshrine in the Portuguese constitution the objective of price stability.

⁹ As Willem Buiter (1996) put it, real convergence or divergence had nothing to do with EMU. Examples for other EU-countries can be found in Buiter (1996) and Jones, Frieden and Torres (1998).

¹⁰ Unfortunately, these policies are still quite popular. For instance Portugal tends to opt for lower energy costs (wrong incentives to pollute more) in the name of short-term competitiveness.

The first two adjustment programmes featured fiscal adjustment and privatisation of state-owned enterprises to stabilise the ratio of public debt to GDP. The programmes were aimed at redressing major macroeconomic imbalances but did not modify the exchange rate regime, officially still a crawling peg.

In 1986 and 1987, the Portuguese economy was characterised by relatively high economic growth and substantial progress in reducing inflation (from 19.3 per cent in 1985 to 9.4 per cent in 1987) which was mainly due to the decline of both the dollar and the price of oil and to world economic growth. Joining the European Community at the end of the period of Euro-sclerosis and the beginning of the EC-1992 Single Market programme meant that optimism was also an important factor in promoting economic growth and moderating inflation. Due to its increased openness, the Portuguese economy benefited substantially from that effect. Between 1985 and 1988, Portugal's terms of trade improved by almost 6 per cent a year. This in turn made it possible to pursue an expansionist policy without any major adverse impact on inflation, despite the introduction of both the Value Added Tax (VAT) and an extra tax on oil products in 1986.

At the same time, domestic fiscal transparency, meaning both greater fiscal discipline and especially a more open reporting of fiscal decisions, was significantly increased and curbing inflation with specific annual targets became a clearly stated policy objective. Reform of direct taxation also took place in 1989 raising total revenue as a percentage of GDP.

However, by 1988 the anti-inflation effort came to a stand-still. This was partly due to the combination of full employment with high economic growth, a clearer perception by the private sector of the inflationary effects of a high public debt and to the lack of a clear-cut strategy for disinflation in the face of slowing global growth. The de-emphasis on fighting inflation was underscored by a stated shift in policy objectives: from the priority of fighting inflation to the need not to slow down the catching-up process with the rest of the EC. Less control of domestic capital markets, large capital inflows, a postponed transition to a system of indirect credit control that reflected the fears of the monetary authorities to liberalise, coupled with the lack of a clear strategy for the exchange rate policy and the slowdown of the pace of fiscal adjustment further weakened the anti-inflation credibility of the authorities.

In 1985 the crawling peg regime, coupled with capital controls, credit ceilings and administratively set interest rates had allowed the government to collect implicit revenues from the productive sector. The crawling peg was no

longer effective in altering relative prices or compensating for inflation differentials with Portugal's main trading partners.¹³ At a time of greater financial openness and closer monetary integration, this exchange rate limbo was incompatible with a strong commitment to fiscal adjustment. The inflation rate turned out to be almost 8 per cent above the initial (successively revised) target.

Throughout the 1980s, the Portuguese government sided with Mrs Thatcher's government in its sceptical attitude towards rapid institutional reform, namely monetary reform, in the European Community. The minister of Finance, a prominent anti-EMU voice, felt very uneasy about swift European monetary integration because of its perceived potential costs in terms of economic and social cohesion and loss of national sovereignty.¹⁴ In fact, he was never an enthusiast of central bank independence and shared the initial sceptical view of the government on rapid European monetary reform. Conversely, the monetary authorities, unlike their European counterparts, initially favoured an exchange rate rule based on external competitiveness (the crawling peg) and later on a national (protectionist) solution for increased central bank independence (power), i.e. capital controls rather than EMS discipline.¹⁵

A new adjustment programme dubbed QUANTUM, for "the Transition to Economic and Monetary Union", was approved in June 1990. At the beginning of 1990, a new minister of Finance, formerly a central bank board member, re-established disinflation as a priority. Soon it became clear, however, that he would follow the Central Bank, postponing the liberalisation of capital controls and EMS entry. Besides, a sweeping adjustment of the public sector wage scale increased substantially the wage bill and had demonstration effects in the private sector. The coincidence with the elections that took place in October 1991 made it appear as part of the political business cycle. As a result, fiscal adjustment did not materialise in the 1990-91 period.

On the other hand, capital controls, credit ceilings and administratively set interest rates gave the monetary authorities the illusion that monetary autonomy could last forever. This illusion meant the adoption of a policy of capital controls (on inflows) pursued between 1990 and 1992 which resulted in artificially high

¹³ See Macedo and Torres, 1991, and Torres, 1991.

¹⁴ See Cadilhe, 1990.

¹⁵ In any case, in 1989, the case for a European single currency was not perceived at all as a central question for Portugal. Both the Government and, especially, the monetary authorities were lagging behind European developments.

interest rates. These in turn were responsible for a higher debt service of the treasury, significant losses by the central bank and substantial distortions in economic performance. Moreover these high interest rates implied an unwarranted transfer of resources from the productive sector to the sheltered financial sector.

The change of regime and the political consensus building

Joining the ERM and abolishing capital controls

The new government that came out of the general elections of 1991 announced full participation in Economic and Monetary Union as a clear policy objective. The new adjustment programme¹⁶, designed for the period 1992-95, marked a clear change in regime: from discretion to rules and from capital controls to free capital mobility. This change in regime however was never announced (and perhaps never understood) as such.

Only with the country's first presidency of the European Council during the first half of 1992 did the Portuguese government's attitude towards the European integration process change and the escudo joined the ERM: the initial sceptical view was abandoned and from siding with the United Kingdom Portugal turned towards the Franco-German axis. The escudo joined the ERM on 6 April 1992 as part of the convergence programme and during (and probably also thanks to) the Portuguese presidency of the European Council. A few months later the turmoil in the European exchange rate markets began and the momentum for EMU was lost amidst the recession. In any case, 1992 was a landmark in terms of fiscal consolidation, with results already complying with the Maastricht criteria: the deficit and the public debt to GDP ratios amounted to 2.9 per cent and 59.2 per cent, respectively.

The European recession of 1992/93 and the ensuing credit conditions from capital controls angered the social partners. Paradoxically, the opposition to EMU blamed participation in the ERM cum the liberalisation of capital controls, and what was called the obstinacy of the government over nominal convergence, for the recession.

The political consensus needed to pursue the reforms was nearly broken, since the blame for high interest rates was placed on exchange rate policy (as a result there were constant calls for a devaluation of the escudo that grew with recession in the Portuguese traditional export markets, and in particular in sectors such as textiles

and clothing) and on the convergence programme (responsible, according to that view, for the lower rate of growth of the economy).¹⁷ As in other liberalisation experiments, anti-reform interests (in that period, the banking system sheltered from external competition but also, to a lesser extent, the traditional export sectors) tried to blame liberalisation for the international recession that was affecting the economy in order to resort to protectionism, allowing for specific returns (higher interest rates in the case of the banking system) and/or enhancing their political power (within the government and the Central Bank).¹⁸

It proved decisive, however, that full convertibility and ERM membership of the escudo had taken place or had been decided upon, in the case of dismantling controls, before the European recession and the exchange rate crisis. The period of exchange rate turbulence in the EMS, in spite of its negative effects, provided clear relief to the Portuguese economy. In fact, a monetary policy of capital controls designed to keep domestic interest rates stable at very high levels was substituted for a monetary policy of capital mobility and exchange rate stability (the escudo in the ERM) designed to keep domestic interest rates at (much lower) international levels although more volatile (in the very short-term) in the wake of speculative attacks against the escudo.

During the same period, inflation came down from 9.8 per cent in May 1992 to 5.6 per cent in June 1993 and interest payments on the stock of outstanding debt, while rising in most EU countries, fell significantly in Portugal.¹⁹ During the crisis, Portugal was also the only case in the EU whose foreign debt classification was upgraded.

The early 1990s proved also to be a most valuable learning period for policy-makers, social partners and economic agents in general.²⁰ It was possible for the private sector to learn more about the policy rule and eventually understand it, while the various realignments were seen as a true escape clause beyond government control (to be triggered only in the case of asymmetric shocks).

¹⁷ Textile and clothing (with productivity levels at two thirds and one half of the Portuguese manufacturing average in 1989) experienced an initial rapid expansion with free access to the EC market but world-wide competition, fragmentation, lack of marketing and higher domestic interest rates (due to the policy of capital controls pursued in 1990 and 1991) accelerated those calls.

¹⁸ This was clearly recognised by the then prime minister, Aníbal Cavaco Silva, who stated that some segments of the administration had difficulties in digesting the new monetary regime (Silva, 1994, p. 512).

¹⁹ Interest payments on the debt fell from 86 per cent of GDP in 1991 to 78 in 1992, 68 in 1993, 48 in 1996 and 42 in 1997. Meanwhile, the official inflation target set in the convergence programme was met in 1992 and 1993 and in the four subsequent years, fulfilling the Maastricht criterion in 1997.

²⁰ See Torres, 1998b.

¹⁶ See Ministry of Finance, 1992.

Those circumstances granted some breathing space to the real sector of the Portuguese economy while accomplishing the change in regime.²¹ It was the first time for many years (since 1891, when the Portuguese currency left the Gold Standard, with the exception of a period of less than three months in 1931, when it returned to gold convertibility) that Portugal was living in a regime of full convertibility of its currency.²² While it had been impossible to pursue structural reforms without the liberalisation of the economy, it proved decisive to have had a clear economic and political strategy for achieving macroeconomic convergence before the European recession of 1992/93 and especially before the outbreak of the ERM crisis. The escudo managed to survive the deepest post-war recession in Europe without leaving the ERM and without resorting to capital controls at any time.

Enduring the objective of EMU and building a cross-party consensus

While the expenditure of the state sector remained on target in 1992 and 1993, tax revenue fell much below its predicted value and social security expenditure exceeded its target in 1993, inducing a slippage in the process of fiscal consolidation. This interruption was mainly due to the recession (negative growth generated a lower total revenue that fell from 34.1 to 31.7 per cent of GDP and increased unemployment, inducing higher social security transfers) and to the virtual collapse of tax administration. Despite this discontinuity the Portuguese public debt ratio as a percentage of the average EU debt ratio kept falling from 1993 through 1997. In any event, the scale of the revenue slippage was totally unexpected and provoked a general sentiment of failure.

The opposition to the strategy of macroeconomic convergence for participation in EMU and the debate on the costs and benefits of EMU became centred then on the issue of real divergence. Attitudes towards a European currency have then changed with external economic conditions. Until 1996, there was a loud ideological opposition to EMU (and European integration) in spite of a clear political (parliamentary) majority in favour. Most of this opposition disappeared when it became clear that Portugal would be able to join EMU from the very start.

Maintaining the objective of EMU participation during the recession of 1993/94 and throughout the electoral year of 1995 was only possible because of the steps

²¹ See Torres, 1995.

²² See Macedo (1996) for an analysis of different episodes of currency (in)convertibility in Portugal.

taken before, i.e. joining the ERM and liberalising all administrative controls on capital flows. As the elections approached, the opposition Socialist Party converged on the same objectives concerning Portugal's participation in EMU. And, as political colours changed, the new Socialist-led minority government adopted the convergence programme of the previous executive, initially with some "national reservations" in order to ensure support both from the right-wing anti-Maastricht party, the CDS-PP, the left-wing communist party, PCP, and its own party basis and later on, by May 1996, as a government commitment with the main opposition party, the PSD. In October 1996 it became evident that both the Government and the PSD were in support of satisfying as quickly as possible the macroeconomic convergence criteria in order to participate from the beginning in EMU.²³

The 1997 and 1998 budgets aimed at satisfying all the necessary requirements established in Maastricht. They were approved in Parliament with the abstention of the PSD, since the two anti-EMU parties had indicated early on that they would vote against a budget geared to Portugal's participation in EMU. In February 1997, the PS and the PSD also approved a parliamentary resolution in favour of Portugal participating from the start in the Third Phase of EMU.

The PSD had no other alternative, given the fact that its government had taken the escudo into the ERM in 1992 and that, in spite of its customary lack of enthusiasm for EMU and European integration, it was unprepared for anticipated elections. Yet, the first time such a position was defended in 1996, by the author as parliamentary spokesman for European Affairs in the PSD, it was strongly contested by its leadership. As it was clear that no matter what the position of the party the author would stick to the electoral programme he had stood for, as economic spokesman during the campaign, and that the electorate would not understand any opportunistic behaviour concerning such an important external objective, the PSD abided by the European consensus.²⁴

²³ After several statements made by the prime minister reaffirming his commitment to that objective, the consensus on the goal of Portugal's participation in the core group of countries moving ahead to the Third Phase of EMU was established in Parliament during the first debate of 1996/97 on the single currency. Both in the PS and in the PSD, and especially outside party circles, some sectors remained unsatisfied with such a convergence of views. Within the PSD, that convergence had already been contested in October 1996 at the occasion of a special congress.

²⁴ The PSD remained divided over that consensus. Those against, especially people with responsibilities for economic policy, had already opposed (some less openly but with quite disruptive aims) from within the party and the government, the European monetary integration strategy led by the former minister of Finance Jorge Braga de Macedo.

Smoothing out political and policy misgivings on EMU

The discussion about Portugal's participation in EMU evolved significantly since the objective was put forward in the Delors plan. Initially, the idea of a monetary union in Europe was well received by the public in general as a long-term European goal, although there was some scepticism as to Portugal's capacity to participate. The Portuguese economy was presented to the public, by the government, opposition and social partners, as a peripheral country that was still catching up making a long transition period for monetary and financial liberalisation necessary while concentrating on how to cope with the more immediate challenge of the Internal Market. Portuguese public opinion and polity became used to what was until then the norm, namely that Portugal would be granted yet another transitional period.

Against this background of relative indifference and the stubbornness of the monetary authorities in not discussing the matter, the Parliament was, as in other instances of the process of European integration (such as the issues of the revision of the Maastricht treaty, of the accountability of the European Central Bank and of the so-called reinforced cooperation), at the forefront of the discussion: in 1990 it organised an open debate on Portugal, the EMS and EMU that prompted political debate and forced the authorities to take a position on the matter²⁵, although political commitment to EMU was not on the agenda until 1992. Contrary to most other EU countries²⁶ the Portuguese Central Bank was never an enthusiast of ERM participation, free capital movements or European monetary integration; but when reforms were accomplished or decisions taken, sometimes against its preferences, it followed the new rules.

With the European discussion about the ratification of the TEU, one renewed political party, the CDS-PP, adopted as its main political strategy an anti-Maastricht (anti-EMU) campaign. The exchange rate crisis cum the European recession together with the adoption of a convergence programme designed to allow Portugal to participate in EMU brought the issue to the forefront of the public debate.

Of course, economists at the Central Bank and at the Ministry of Finance and academics with international experience, but also the two main political parties and a small part of the business community, defended that, given the macroeconomic disequilibria in

²⁵ See proceedings of the Economic and Financial Parliamentary Committee hearing of April 4, 1990 (CEF, 1990).

²⁶ Not to mention the special case of Finland described for instance in Moses, 1997.

Portugal at the time, the convergence criteria and the stability pact were important and instrumental, independently of the TEU, to achieve sustained economic growth.

But part of the business community, such as the Confederation of Industry (CIP) and the Portuguese banking association²⁷, the right wing PP, the technocrat (Keynesian) and the conservative and populist wings of the PSD, on the one hand, and the left wing trade union, CGTP, the left wing PCP, the economic adviser to the President and many independents close to the PS and/or influential in the media, on the other hand, depicted the convergence criteria as a problem for real convergence. This argument was often mixed-up with ideological reasons.

Even the sectors politically more favourable to Portugal's participation in EMU, such as the centre-left trade union, UGT, and the Portuguese industry association (AIP) cautioned against the negative effects of EMU on unemployment and growth. But, besides the afore-mentioned arguments of persistent differences in productivity, EU enlargement and world trade liberalisation, no explanations were put forward to justify these presumptions.

It seemed, however, that although people both could not explain why and how EMU would be a problem for Portugal, and understood that exchange rate autonomy would not serve to resolve the structural problems that affected Portugal and Europe (on the contrary, it could only aggravate them), there was until 1998, when Portugal qualified for EMU, a generalised concern that Portugal was not up to the job, that somehow things would go wrong.

This mood improved with economic conditions although many went on not believing that the Portuguese economy could ever compete at any level within the Internal Market, especially with the forthcoming enlargement of the EU to central European countries and the liberalisation of world trade. The pessimist, and sceptic in general, warned against the social and political unrest that would spread, from countries such as France, to the whole of Europe.²⁸ In any case, apart

²⁷ By 1997 concerns voiced by the Portuguese banking association turned to the financial set-up costs involved in replacing the national currency by the euro, given the importance of currency exchange trading for the banking activity. In a hearing in the parliamentary committee on European Affairs (see CAE, 1998), however, two private bankers dismissed the importance of such costs. The issue was dead although, after the inception of EMU, Portuguese banks went on charging very high fees for cross-border transfers (euro 25.13 in Portugal as compared with euro 8.15 in Luxembourg) and other payments, as well as practising the so-called double charging, forbidden by the Cross-Frontier Transfers Directive (97/5), in the euro zone (IEIC, 2000).

²⁸ Some commentators were busy, between 1995 and 1997, announcing the end of the entire EMU project on occasions as different as the Spanish lorry-drivers strikes, social security reform plans in France, reports on German unemployment and so on.

from other “ideological” reservations, real versus nominal convergence remained the issue in the Portuguese public debate about EMU.²⁹

At the same time, however (note the contradiction), most social partners (with the exception of CGTP), political economists (with the exception of some economic commentators, anti-EMU for ideological reasons³⁰) and public opinion at large also cautioned against the possibility of Portugal being left out of EMU and of the weakening of its position in the EU as a whole. They realised that there was no alternative to EMU and that it was better to be part of it than to be “out in the cold”. This was in fact the reasoning the government used to overcome “ideological” or “Keynesian” reservations to EMU, also within its own political basis.

This has been a constant feature of the politics of European integration in Portugal. Negotiators (the monetary authorities and the administration in general, including cabinet members with a lower political profile) supported by reactive political parties, resist to any substantial institutional changes, to any increased sharing of national sovereignty, until the important decisions are taken at the top political level. The fear of being left out of the European integration process or, more recently, of being out of its political core is sufficient to trigger the change in attitude. Negotiators and reactive politicians adapt then quickly to the new rules. That was the case of EMS membership and of all the intergovernmental conferences (including the current one).

The issue of reinforced cooperation is a good example: it was initially strongly rejected by Portuguese negotiators but, after discussions at the highest political level – heads of state and government –, it was first accepted during the 1996 IGC, and later even endorsed and presented as the Portuguese presidency's contribution to the 2000 IGC. The speech delivered at the Humboldt University in Berlin by the minister of Foreign Affairs of Germany, Joschka Fischer, during the Portuguese presidency was received with scepticism and even misgiving. The prompt welcome of that speech by the Portuguese minister of Foreign Affairs, Jaime Gama, has however circumscribed open criticism only to the opposition political parties, silencing the voicing of the customary discomfort (resistance to change) within the Administration at large.

²⁹ At present this is the case for “real versus environmental convergence”. See Torres, 2000c.

³⁰ Anti-EMU positions and “anti-European ideologies” could be observed in all party circles and many different *fora* dominated by both right wing conservatives and traditional leftists, who had in common their distrust of the then on-going European integration process. To some extent (with somehow different actors) that situation was repeated during the Kosovo crisis in 1999.

Joining EMU in the first tier

As in other domains of European integration, Portugal would accept that if unable to participate from the start in EMU others could go ahead.³¹ It was feared, however, that, in practice, the first group of countries to take part in the Executive Board of the European Central Bank would move forward in all other domains of political cooperation, leaving the others effectively out of the political core. On the other hand, it was also feared that convergence would be more difficult for outsiders. That is why both the government and the main opposition party started to defend by the end of 1996, after many quarrels about the subject, that Portugal should participate in EMU irrespective of any automatic transfers and of what would happen to other Southern countries, including neighbouring Spain.

In fact, if Portugal was to participate from the start in EMU while Spain was not, there should not have been any significant costs even in the short run. Unlike Ireland or Britain,³² Portugal was much less dependent on its bigger neighbour: Germany was (and still is) the biggest customer of Portuguese exports (in 1996 even France ranked above Spain), although Spain has become the biggest supplier of Portuguese imports and competed directly with Portugal in third markets. Besides, Spanish attitudes towards EMU were rather different from the UK's (especially before 1997): if Spain was not to participate from the outset in EMU, it would most likely have pursued a policy of exchange rate stability in order to join one or two years later (as Greece is preparing to do in January 2001).

Still, some (as the former Prime Minister Aníbal Cavaco Silva) argued that, politically, it would have proved very difficult to separate the two countries in the event that Portugal had performed only marginally better in terms of the convergence criteria. But, one could have argued³³ that if EMU was to go ahead with the core group of countries, Ireland, Finland and Portugal – all with bigger neighbours that could either hesitate from participating in EMU or fall short of fulfilling the convergence criteria – it would provide a case in point for the fact that variable geometry was not an alibi for a European geographical divide.

³¹ That notion, named “positive variable geometry”, put forward by the author in a hearing of the Committee on European Affairs of the Portuguese parliament in May 1994 (see CAE, 1994), was adopted in a parliamentary resolution on the principles for the revision of the Treaty on European Union in April 1995. The concept of flexible integration, contained in the Amsterdam Treaty, is applicable to other domains of European integration. See also Dewatripont et al (1995) for a more elaborated proposal, featuring a set of mandatory competencies, the common base, and allowing for deeper forms of cooperation, open partnerships.

³² See Kavanagh et al, 1997.

³³ See Torres, 1998b.

What kind of institutional reform?

In Portugal there has been a consensus among the major political forces³⁴ and trade and business groups about the goals of active participation in the process of European integration and increased economic and social cohesion. This consensus translates into an active employment and social policy and into participation in the major institutional reforms of the European Community, as a means of securing political and macroeconomic stability while preserving Portugal's most self-praised "universal vocation".

The objectives of reducing inflation and improving the efficiency of labour, product and financial markets featured prominently in the adjustment effort, in line with the understanding that the most useful structural policy measures were those which reinforced the role of market mechanisms in resource allocation. While this understanding was stressed in several Government documents before and after 1995 – namely in the Portuguese contribution to the White paper on Growth, Competitiveness and Employment³⁵ and in the Strategic Options of the Government for 1997³⁶ – the political debate neglected it until just before Portugal entered EMU.

Calls for automatic transfers

Until 1996 there were constant calls from party circles and from within the government for automatic EU transfers (a safety net for EMU). When it became clear, by the end of 1996, that it would be possible to fulfil the convergence criteria and that such claims would affect the very credibility of the government's commitment to EMU, the idea was suddenly abandoned.³⁷ Those claims would have only aggravated displeasure of the net-contributor countries with cohesion and structural funds and would have implied the shifting of resources away from cohesion countries with relatively low unemployment,

³⁴ Until 1997 the PCP and the CDS-PP were opposed to any external liberalisation of the economy and to further European integration. When it became clear that Portugal would participate in EMU from its inception this position softened.

³⁵ Ministry of Finance, 1993.

³⁶ Ministry of Planning, 1996.

³⁷ At the same time, early participation in EMU was attacked on the grounds that Portugal should participate in an EMS II with the other Southern European countries. This position also changed dramatically just before the Italian Prime Minister Romano Prodi asked for a slower pace in the transition to EMU. Portugal decided then to de-link from any ambiguous positions concerning the process of monetary integration in order not to provide any reasons to be excluded from the first tier in EMU.

such as Portugal, to countries with high unemployment, such as Spain. When the Portuguese authorities fully understood that possibility they adopted the idea of "employability" for the negotiations of Agenda 2000.

Since fiscal integration raises issues of re-distribution, automatic fiscal transfers would have been inappropriate without an important leap forward in the process of European political integration. After German and Dutch calls, during an ECOFIN meeting (in September 1997), for an elimination of the cohesion funds for countries participating in EMU, the Portuguese Government adopted (finally) a clear policy stance towards funds and employment, de-linking EU transfers and the principle of social and economic cohesion, enshrined in the TEU, from any other type of transitory transfers directed at smoothing the functioning of EMU.

Trade integration and similarity of economic structures

From an economic viewpoint, the high degree of Portuguese trade integration with the EU always pointed to high benefits and low costs of participation in EMU. Portugal's trade integration with the European Union had been well above the EU average (80 per cent of total exports and 75 per cent of total imports in 1995 and in 1997). In 1997, with respect to Portuguese imports, Spain had remained (since 1991) the most important supplier (with a share of about 30 per cent of total imports from the EU), followed by Germany (21 per cent). France was Portugal's third most important supplier (with a share of about 15 per cent of total imports from the EU). The situation was the opposite for the most important Portuguese export markets: Germany led (with a share of about 27 per cent of Portuguese exports to the EU) and France and Spain followed (with a share of about 18 per cent). These three trading partners were followed by the Benelux countries, Italy and the UK. The situation has not changed.

With respect to the likelihood of asymmetric shocks affecting the future European monetary union, it was important to know how similar the trade and industrial structures of Portugal and the EU were. According to data available at the time of the pre-entry debate³⁸ on the correlation between average intra-EU exports, and exports of each EU-member state to other EU members, the trade structures of Ireland, Denmark and Portugal deviated moderately, but not as much as the trade structures of Finland and Greece, from the EU average.

³⁸ Up to 1994; See Gros and Vandille, 1995.

In fact, EC membership, and hence better access to the internal market in 1986, triggered an initial rapid expansion of the traditional Portuguese manufacturing sectors (textiles, clothing and footwear production) and brought about an increased specialisation of the economy. But increased world-wide competition, fragmentation, poor marketing and higher domestic interest rates (due to the policy of capital controls pursued in 1990 and 1991), on the one hand, and the modernisation of the economy and foreign direct investment (FDI) inflows, on the other, have since then modified that trend towards more similar economic structures.³⁹

Notably, exports from the *Auto Europa* joint venture, a FDI between Ford and Volkswagen with investment outlays equal to 2.9 per cent of GDP, that began production of multi-purpose mini-vans at its new car plant in Palmela (greater Lisbon area) by mid-1995, are estimated to have reached almost 10 per cent of total merchandise exports in 1996 and 1997. This investment compensated for the fall in employment in the textile, clothing and footwear producing sectors (mostly based in the north of the country), which experienced job reductions that accounted for almost the entire employment reduction in 1995.

In addition, besides precarious agricultural and traditional specialisation in manufacturing sectors such as textile and clothing, the Portuguese industrial structure has been highly fragmented (firms with fewer than 500 employees account for almost 80 per cent of total employment). Such a structure is good for competition (and for the flexibility of the economy), but bad from a resource allocation point of view. For instance, in 1992 half of industrial R&D was still concentrated in 5 large firms in the electronics, telecommunications and paper sectors,⁴⁰ and more than half geographically concentrated in Lisbon and the Tagus Valley. This concentration of domestic resources may have prevented a faster real convergence with the EU.⁴¹ On the other hand, most of foreign direct investment made between 1989 and 1992 – after liberalisation and before the Central and Eastern European economies were opened up – went to the tertiary sector (banking, insurance and business services) which experienced a substantial increase in productivity.

³⁹ The Internal Market seems not to have increased sectoral specialisation in Europe but, on the contrary, has led to specialisation in different quality/price ranges within the same sectors, as seems to be also the case for Portugal in recent years.

⁴⁰ OECD, 1996.

⁴¹ That concentration led to the exclusion of the region "Lisbon and the Tagus Valley" from objective 1, in terms of structural funds in the new financial package for 2000-2006.

In short, the structure of the Portuguese economy still deviates from the EU average. Although the specialisation pattern became initially more pronounced, it seems that the structure of the Portuguese economy has become more similar to the European average since 1994/95, not in the last place because of foreign direct investment. Still, differences in the industrial structure will persist (changes in the industrial structure take time) and with them the possibility of asymmetric shocks relative to other EU countries.⁴² However, exchange rate considerations seem irrelevant to tackle that problem both because of the high Portuguese wage flexibility and because of the permanent nature of the foreseen shocks (EU enlargement, liberalisation and globalisation).⁴³ It is therefore important to look at the institutional features that will constrain the capacity of the economy to respond to modernisation and deeper European and world-wide integration.

Institutional features of the Portuguese economy

The labour market

In Portugal, around 70 per cent of workers are covered by collective bargaining. There are two unions: the above-mentioned UGT and CGTP. The level of bargaining is predominantly sectoral and there is limited coordination between bargaining units. Firm-level bargaining is still very rare while national agreements are attempted each year. Benefit entitlements before tax as a percentage of previous earnings before tax (the so-called gross unemployment benefit replacement rates) are rather high for Portugal: they stand at 65 per cent during the first year and 39 to 43 per cent (if there is a dependent spouse) during the second and third years.⁴⁴ Eligibility criteria for unemployment benefits are strict: applicants have to have worked 1.5 years out of the previous two. There is a minimum wage (roughly 318 euros in 2000).

Within this institutional setting, it is noteworthy that the Portuguese experience contrasts with that of Spain. In 1997, after having peaked at 7.3 per cent in 1995, the Portuguese yearly average unemployment rate was 6.8 per cent (in 2000 it fell to

⁴² Besides, business cycles tend to be more highly correlated in integrated countries, hence the potential need for unilateral policies such as exchange rate devaluations is reduced.

⁴³ In any event, exchange rate flexibility can only have a transitory impact on the economy and hence does not dispense the need for long-run real adjustment of a country's economic structure. Moreover, nominal exchange rate devaluations are totally ineffective if they cannot affect relative prices.

⁴⁴ Data refer to 1995; see Martin, 1996.

about 4 per cent). This rate compared favourably with the other EU member states, in that only Luxembourg (3.6 per cent), the Netherlands (5.5 per cent), Denmark (6.0 per cent) and Austria (4.4 per cent) reported lower rates just before the launching of EMU (1997). While Portugal and Spain had had a comparable level of unemployment at the end of the 70s (around 8 per cent, higher than an EC average of 5 per cent), in 1997 Spain reported an unemployment rate above 20 per cent.

Both Portugal and Spain have experienced high budget deficits and indeed this fact has contributed, through high interest rates, to the rise of structural unemployment; the same holds, to a lesser extent, for several other factors such as unemployment benefits, institutional factors regarding the way unions work and the deterioration of terms of trade. But in contrast to all other countries, specific effects (unobserved components) are responsible for 40 to 50 per cent of unemployment rates – negatively in the case of Portugal and positively in the case of Spain.⁴⁵

The large weight of the state sector in Portugal first ensured low unemployment in the 1980s, albeit at the expense of raised economic costs in terms of high inflation, while wage increases were then traded for job security, keeping unemployment low. Low unemployment compensation benefits (practically inexistent until 1977) also increased the cost of being out of work.⁴⁶ That model, as opposed to Spain's, led to both the lowest wages and the lowest strike rates in the EU.

A possible explanation for the fact that Portuguese unemployment did not persist at ever higher levels after the 1980s despite structural adjustment but actually fell, could be what Nancy Bermeo called trading wage increases for job security, given that it was impossible to liberalise dismissal practices in Portugal. Still today, according to the OECD, Portugal (although followed very closely by Spain, and much ahead of other countries) has the highest index of employment protection. But the fact that Portugal had low unemployment benefits and, in practice, rather loose employment protection legislation, may have led also to a higher responsiveness of wages to unemployment.⁴⁷ This may have led in turn to a less adverse

⁴⁵ See Scarpetta, 1996.

⁴⁶ The average replacement ratio of the OECD was 34 per cent in 1995, 25 per cent in the period from 1987 to 1991, 7 per cent in the period from 1979 to 1985 and 1 per cent in the period from 1973 to 1977 (Blanchard and Jimeno, 1995).

⁴⁷ Small firms tend to circumvent regulations by not paying social security contributions and by relying on short-term contracts. Also, a significant number of workers with permanent contracts were laid off during the recession of 1993/94, suggesting that there is a *de facto* flexibility in the labour market (OECD, 1996).

effect of disinflation on employment and to less unemployment persistence – the explanation stressed by Olivier Blanchard and Juan Jimeno.

Disinflation and structural adjustment in Spain took place three years before the country's accession to the EC, just after the oil price increase and while the labour share still reflected the wage explosion of the 70s. It was of a labour-compensating nature: high wages with high unemployment. Portugal delayed its restructuring until there was an up-swing: the oil price was falling, the labour share was already much smaller, privatisation and flexibilisation were becoming effective and transfers and investment associated with EC membership were gaining momentum, in turn opening up (the hope for) employment possibilities.⁴⁸

The timing for stabilisation and structural adjustment may also reflect the fact that there has always been a consensus among political parties and social partners on the pursuit of an active employment policy to ensure social cohesion (although, after accession to the EC, a large part of these programmes were financed by the Community support frameworks). Two episodes during the recessions of 1983/84 and 1993/94 illustrate well this idea: In 1983/84 many workers agreed to work without being paid for several months in order to avoid being on the dole; in 1993/94, in the face of a serious and widespread unemployment threat, the unions immediately accepted lower wage increases.

Although it seems that there is no hysteresis in the Portuguese unemployment rate, possible labour mismatch problems should not be ignored as they would indicate that the economy may have entered a more difficult period of employment adjustment.⁴⁹ Vítor Gaspar and Sílvia Luz, following Blanchard and Katz (1997) and using quarterly data from 1983 to 1996 to arrive at a wage curve, conclude that there is real wage flexibility even in periods of low inflation and exchange rate stability. Variations in the Portuguese unemployment rate correlate with the cyclical fluctuations of economic activity (Okun's law).

In Portugal wages have been highly elastic with respect both to inflation and unemployment: the wage response (the semi-elasticity) to unemployment has been one of the largest among European countries (only smaller than in Japan and Sweden, in

⁴⁸ Sacrifice ratios (the number of percentage points between real production and equilibrium production for each point less in the inflation rate) confirms that view for the period 1980-94 as a whole: Italy and Portugal have ratios of 0.65 and 0.66, respectively, while Ireland and Spain have ratios of 1.0 and 1.47, respectively. See Barbosa and Machado (1996).

⁴⁹ See OECD, 1996, for a description.

absolute values).⁵⁰ Real wage flexibility is a substitute for international labour mobility. Therefore, foregoing exchange rate autonomy seems not to be very costly.⁵¹ *De facto* flexibility of the labour market, in spite of its rigid regulation, shows that the Portuguese economy has some capacity to adjust to uneven shocks in a monetary union.

Monetary convergence

New statutes of Banco de Portugal, approved in October 1990, gave the central bank a high degree of economic independence while maintaining an average degree of political independence, as compared with other OECD countries.⁵²

By 1995, the statutes of the central bank were amended by Decree-Law 235/95 drawn up by the PSD government but whose ratification in parliament was demanded by the PS after the October 1995 elections at the start of the new political cycle.⁵³ The ensuing Law 3/96 of 5 February 1996 established the maintenance of price stability as the primary objective of the Central Bank, taking into account the general economic policy of the government. The Bank became the sole responsible for the conduct of monetary policy, having the obligation to cooperate with the government in defining and implementing exchange rate policy. The overdraft facility and direct purchases of government were officially abolished. In the new law, and as in most European central banks, the Bank retained responsibilities for banking supervision; the Governor was also obliged to inform parliament about monetary policy matters following the publication of the Annual Report of the Bank.

⁵⁰ See, among others, OECD (1992) and Luz and Pinheiro (1994). According to some studies reported in Gaspar and Luz (1997) also in the Netherlands wages are highly elastic to unemployment (-0.17), in absolute terms slightly above the value for Portugal (-0.16). Increasing wage bill differentials (see OECD, 1996) also suggest high nominal and real wage flexibility. On the other hand, the rate of structural unemployment has scarcely changed since the beginning of the 1980s.

⁵¹ This is true even if one rejects money neutrality and takes the view that discretionary exchange rate policy can affect output.

⁵² See Torres (1998b) for a discussion on Portugal and Grilli, Masciandaro and Tabellini (1991) for the criteria of political and economic independence.

⁵³ This initiative, welcomed by the author in parliament in the name of PSD, was obviously opposed by those within the same party and group that also contested any mention to central bank accountability in the parliamentary resolution in favour of a monetary union in Europe, the approval of the 1997 and 1998 budgets and, of course, ERM membership and exchange rate convertibility in 1992.

The remaining legal inconsistencies with the TEU and central bank statute requirements⁵⁴ were dealt with by the Decree-Law 144/VII, approved in parliament in November 1997, and subsequently transposed into Law 5/98, dated 31 January 1998.⁵⁵ Moreover, the Portuguese Constitution, i.e. former Article 105, was revised, eliminating inconsistencies with the TEU. Unfortunately, as mentioned above, there was still cross-party political resistance to enshrine in the constitution the objective of price stability (the constitution refers to the statutes of the central bank).

That resistance is as well a good example of how reactive politics can be completely out of touch with European developments. During the first reading in the revision process, there was even obstruction to the author's proposal to revise Article 105 of the Constitution at all. But fears that Portugal could be left out of EMU's third phase due to a potential inconsistency of the country's fundamental law with the TEU led to an exceptional re-opening of Article 105 already in the second reading of the revision process.⁵⁶

Supposedly in order to maintain the primacy of the Portuguese constitution over the TEU (trying to preserve monetary sovereignty, as if the goal of EMU was not exactly to share monetary sovereignty), the revision of article 105 was accepted provided the new text (which apparently was prepared outside parliament) would not pay too much tribute to the "imported" ideas of price stability and central bank independence.⁵⁷ The idea was presumably to eliminate all legal inconsistencies with the TEU as a prerequisite to join EMU without acknowledging its goals (or even understanding them). The PS and, especially, the PSD opposed that the objective of price stability be enshrined in the constitution despite the fact that both parties approved at the same time a parliamentary resolution in favour of monetary union and its objectives.

As a result, the new article of the Constitution (now numbered 102) states only that the central bank should act according to the law and the international rules ratified by Portugal(!): it does not specify the Portuguese preferences and is basically redundant. The monetary (like most of the economic) constitution is out of the Fun-

⁵⁴ See CEC, 1996; EMI, 1996.

⁵⁵ The Governor of the Central Bank had discussed, at the parliamentary Subcommittee on Economic and Monetary Union, all these inconsistencies and the necessary changes contained in the Decree Law presented to Parliament by the Government. The proceedings of those meetings and the report on the Decree Law can be found in CAE (1998).

⁵⁶ See Torres, 1998b.

⁵⁷ See DAR, 1997.

damental Law. If at all, the new wording of the Portuguese Constitution clearly points to an external constraint rather than to an internal commitment.

Competition policy

While regulatory reform in the financial sector had already taken place, it is still being implemented in the utilities sector. Public transport companies, television, steel, and chemicals have not yet been restructured. TAP-Air Portugal, the national carrier, features among the most heavily subsidised airlines in the EU, along with Air France and the Greek Olympic Airways.

Efforts to improve product market competition included: transcription of EU-directives concerning public procurement policies, financial control over public enterprises by the court of auditors, simplification of the notification procedures for foreign direct investment and more consumer-friendly credit regulations. In 1996 and 1997 further measures were taken to improve the public utility response to consumers and to adopt more consumer-friendly insurance regulations. But, as Barros and Mata already stressed in 1996, while the legal provisions seem satisfactory they have not been properly enforced: there seems to be a generalised bias regarding the interpretation of the principles (concern for the competitiveness of domestic firms and other businesses rights prevail over concern for consumers and social welfare) and decisions are left to several non-independent sectoral supervision bodies and a competition authority that does not rank clearly above the former.⁵⁸

While preparing for EMU, Portugal was among the largest "privatisers" of the OECD⁵⁹: According to the Ministry of Finance⁶⁰, from 1989 to 1999, about 150 selling operations took place including almost 100 enterprises, yielding a revenue equivalent to 25 per cent of GDP. More than half (51 per cent) of that revenue was used for public debt redemption. Until 1995, the biggest chunk of sales (about two thirds of total revenue) was in the banking and industry sectors that had been nationalised in 1975. In 1996, 1997, 1998 and 1999 the privatisation of the remaining shares in some banks and partial privatisation of public utilities (telecommunications and electricity), motorway operating concessions, cement and others, amounted to 2.8, 4.7, 3.9 and 1.5 per cent of GDP, respectively.

⁵⁸ The first Competition law dates from 1983 and was revised in 1993 (Decree-Law 371/93).

⁵⁹ OECD, 1996.

⁶⁰ See Ministry of Finance, 2000b.

Other developments

Structural funds and sustainable development: a slow change in attitude

The implementation of the European Single Market directives has greatly contributed to accelerating the pace (still slow by European standards) of other reforms, as diverse as environmental quality and consumer protection. The total amount of EC transfers in 1996 and 1997 reached 4.3 per cent of GDP (with the structural funds amounting to 3.1 and 3.0 per cent of GDP in 1996 and 1997, respectively, and the cohesion fund reaching 0.2 and 0.4 per cent of GDP in 1996 and 1997, respectively). Net transfers of the EU are of course much lower (below 3 per cent of GDP) and they are expected to continue to fall.⁶¹ Estimates of the impact of the first Community Support Framework (CSF) programme for the period of 1989/93, based on a general equilibrium model, point to an additional GDP growth of 0.4 pp in the short run and 0.5 pp in the long run. The official estimated impact of the second CSF, 1994/99, based on an input-output model, is also a 0.5 pp increase in the rate of growth.⁶²

The CSF programme for 1994/99 aimed at reducing the main weaknesses of the Portuguese economy that involve: education, economic infrastructure, the productive structure (characterised by an excessive weight of low-productivity industrial sectors and a very low-productivity agricultural sector), social security, disadvantaged social groups, the environment and regional imbalances. The negotiations of Agenda 2000, concluded during the first half of 1999, have ensured that Portugal will continue to have access to structural funds under the 3rd CFS programme for 2000/6.

Part of the EU transfers have exerted some pressure for internal reform – given that they had to be matched by national public expenditure, they required a definite establishment of long-term priorities in Portugal. It was possible to exert parliamentary pressure on the government regarding the use of structural and cohesion funds, namely with respect to a better distribution of these funds in favour of the environment. This is even more so due to the NATURE 2000 EU directives which involve some degree of conditionality.⁶³

⁶¹ This is because the bulk of EU expenditure is related to the Common Agricultural Policy. Given the structure of the agricultural sector, Portugal is reported to be a net contributor to the EU in this sector.

⁶² See Gaspar and Pereira (1995) for the general equilibrium model and Ministry of Planning (1993) for the input-output model.

⁶³ See Torres, 2000c.

With EMU, the new European codecision process, the forthcoming enlargement process and the prospect of a closer political union for a limited number of countries within the EU (reinforced cooperation), it is more difficult for Portugal – or it becomes politically much less attractive – to follow the old rule of asking for derogations. Yet, until recently, this was the first instinct of the Portuguese Administration, especially as far as environmental directives were concerned.

In the case of the auto-oil programme, the European Affairs Committee of the Portuguese Parliament adopted a resolution project considering that the derogation granted by the EU to Southern countries, “could have had potentially very negative consequences for Portugal, namely with respect to the negotiation of the Agenda 2000”. This meant playing the “European card”: the need not to be perceived as a laggard in the European integration process, especially during an important negotiation of financial resources. The European Affairs Committee that may have a view more similar (long term) to the European Parliament (EP) than most of the other Portuguese parliamentary committees as far as European legislation (increased cooperation) is concerned, can now propose resolutions with respect to the position of the government in the Council for a number of directives.⁶⁴

Portugal's attitude towards environmental policies and/or a better use of structural funds also relates to its stage of economic development. Although it is true that since 1998 only few politicians, policy-makers and commentators have not come to recognise the advantages of solid monetary institutions and price stability for sustained growth, many do still argue that higher environmental standards (quality convergence), despite being considered a desirable aim in the long run, may impede faster economic growth (real convergence). As in the case of EMU, the political consensus on the priority of higher standards on environmental quality, consumer protection and internal social cohesion, all pre-conditions for long-term development, over the mere access to EU funds is taking long to build.⁶⁵

⁶⁴ Examples of potential cooperation between national parliaments and the EP, not only in this field but also as far as political accountability for monetary policy and general economic policy guidelines is concerned, were to be discussed at the COSAC meetings in Lisbon held at the end of May 2000. The author was nominated *rapporteur* by the European Affairs Committee and prepared a questionnaire for the effect that, most regrettably, was essentially ignored and partly scattered into a wider pre-existent questionnaire of the responsibility of the staff with no relevance whatsoever for this topic. Neither explanations nor justifications were given for that conscious boycott.

⁶⁵ While there are clear signs of a positive change in attitude from the part of the new minister for the Environment together with increased pressure from both the Portuguese NGOs and the European Commission, the political debate still centres (with the exception of some attempted cooperation with the EP, most of the time boycotted by political parties) on

Pre-euro exchange rate developments

The escudo was forced to devalue several times during the ERM crisis. Because the financial markets had been associating the escudo with the peseta, the authorities followed an intentional policy of de-linking the two currencies from the start of the period of turmoil. This policy was relatively successful (as shown by the reduction of daily exchange rate volatility and of the need for official intervention in the foreign exchange markets). Interest rates on 10-year government bonds fell 300 basis points in the following 12 months.

In nominal effective terms, the escudo has behaved in a fairly stable way since it joined the ERM in April 1992. Until 1997, the behaviour of the escudo against a basket comprising the currencies of 26 industrialised countries (BIS data) was one of the most stable of all EU currencies. In real effective terms (using the CPI as a deflator), the Portuguese escudo from the time of joining the ERM roughly until its exchange rate was locked into the new EMU grid in 1998, was by far the most stable currency in the EU: its real effective exchange rate appreciated by less than 1 per cent until the end 1996. Since 1987, it appreciated 27.2 per cent, more than any other EU currency. This is because from 1989 to 1991 there was a substantial rise of unit labour costs. However, it was only in 1997 that the effects of exchange rate stability became apparent on the reduction of capital costs, which in turn contributed to economic recovery.

Fulfilling the convergence programme and the stability pact

Contrary to most EU countries, no special measures were taken in Portugal (on the expenditure side) to reduce the budget deficit to 2.5 and 2.2 per cent of GDP in 1997 and 1998, respectively. Although falling for the third consecutive year, the level of the public debt was still excessive in 1997⁶⁶, around 61.5 per cent of GDP⁶⁷; only in 1998 it fell to 57.8 per cent of GDP. In fact, government current spending depends basically on the public sector wage bill that grew more in 1997 and in 1998 than in most

issues such as who has built more kilometres of motorways and bridges or, demagogically, on refusing locally (“not in my backyard” considerations) any global solutions.

⁶⁶ The TEU stated however that the debt ratio could be exceeded in exceptional circumstances, namely if diminishing sufficiently and approaching the reference value at a satisfactory pace, which was the case.

⁶⁷ According to the new European System of Accounts implemented in 1999, ESA 95 (Council Regulation 2223/96 of 25 June 1996), the public debt ratio for 1997 turned out to be 60.3 and not 61.7.

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other EU countries. In the period 1995-99 fiscal consolidation was achieved largely through higher tax returns due to stronger economic growth and tougher tax enforcement. The danger of slippage comes in the short run from the possibility of deficient expenditure control, namely in regard to health. That happened in 1997 and in 1999. In 1997 higher tax returns and both tax enforcement and lower than expected expenditures on social security maintained the deficit ratio below the target; however, in 1999 that slippage was reflected in the stock of public debt in 1999 (which decrease only to 56.8 per cent of GDP⁶⁸) and 2000 (which is expected to augment to 57.1 per cent of GDP).

Portugal did not make a big effort to reduce the deficit and the debt: the general government primary balance reached a level of 4.2 per cent of GDP in 1992 but remained quite small thereafter, amounting to only 1.7 per cent of GDP in 1997 and 1.1 per cent of GDP in 1998 (it is expected to remain below 3 per cent until 2004); contrary to what happened in all other EU members, non-interest expenditures grew (more than in any other EU country) between 1993 and 1998 and there was a dramatic fall in the implicit interest rates on public debt and a reduction in interest payments from 1991 to 1998.

The compliance with the Stability Pact hinges on the capacity to increase the primary surplus from 2000 onwards. For 2000 the budgeted deficit amounts to 1.5 per cent of GDP, and the public debt is expected to increase to 57.1 per cent of GDP, while these values are set to converge in the following years to 0.0 and 48.4, respectively, in 2004, in the Stability Pact.⁶⁹ Cutting current public spending would increase confidence and reduce the growth-adjusted effective interest rate, but pressure to increase taxes tends to have the opposite effect.

In addition, the speed of debt reduction will be determined by the receipts from privatisation and pension expenditures. While there is still some scope for privatisation in 2000/2001, in the longer term, fiscal sustainability depends on the capacity to restructure the social security system whose deficit can reach 8.5 per cent of GDP in 2035 according to OECD simulations.⁷⁰

⁶⁸ According to the ESA 95 methodology, there was even a slight increase of that ratio from 56.5 in 1998 to 56.8 in 1999.

⁶⁹ Ministry of Finance, 2000a.

⁷⁰ OECD, 1996.

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Application of Structural Funds

Isabel Mota

Introduction

On the threshold of the millennium, a very opportune moment for drawing balances and speculating on the future, recording the Portuguese experience in applying structural funds is of particular interest, especially for those countries which are applying for membership of the European Union.

This is particularly pertinent because the Portuguese experience has been highly positive, and went hand in glove with the economic development and modernisation of Portuguese society as a whole in recent years. Fourteen years have already elapsed since Portugal joined the European Economic Community, and during that time many changes have occurred of particular importance for our social and economic structure. Portugal has made progress as well in terms of real convergence with average levels of development in the Community.

Looking back at what has been achieved, among the factors contributing most towards this evolution are, of course, the Community structural funds, that have become a constant reality in any appraisal the Portuguese make of the economic and political life of the country, and which have contributed to the Portuguese viewing the European project favourably.

A balanced examination of the results achieved should demand above all that we draw the necessary inferences for the next cycle of development aid scheduled for the year 2000.

Furthermore, despite the significant differences in economic and social situations and development problems diagnosed in the different candidate countries, all of which demand specific solutions, there are common areas for reflection. There are important similarities in the approach to be made to the European project and in the way of ensuring that the Community instruments geared to the structural development of the European Union are put to the best possible use.

It is with this in mind that the "Portuguese case" will be presented, adding the author's own personal assessment of the positive and negative aspects in applying structural funds. An exchange of information and experiences will be of benefit to all in sharing our views on the future of Europe and the challenges of the forthcoming enlargement.

It should not be forgotten that regional disparities are naturally a threat to the economic and social cohesion of the European space, and make it more difficult to obtain the necessary consensus for stronger integration and the success of enlargement.

This is why the priority attributed to the issue of structural funds in preparing the accession of the new candidate countries for membership of the European Union is one of the key aspects for the success of the process.

Portugal and Community funds – overall view

Background

Since Portugal joined the European Economic Community in 1986, the economic and social development of the country has converged dynamically with average European living standards. This is illustrated by the fact that Portugal rose from 55.8% of GDP per capita in ppp, in 1986, to around 73% of the Community average in 1999. This was closely linked to the support given by Community structural funds.

From accession to the close of the decade, Portugal negotiated the following Community funding^(*) – Structural funds and Cohesion Fund – in three distinct phases:

- the *first phase* from 1986 to 1988, prior to the first Delors package *with Community support of 2.200 million ECUs*;
- the *second phase* corresponding to the first Community Support Framework and running from 1989 to 1993 (CSF I) – *with Community support of around 9.000 million ECUs*;

(*) Current prices

– the *third phase* corresponding to the second Community Support Framework and covering the period from 1994 to 1999 (CSF II) – *with Community support of around 18.500 million ECUs*.

Different philosophies and approaches to Community intervention underlie these phases, according to different stages in the process of deepening the European integration.

Portugal's accession took place almost at the same time as the approval of the Single European Act in 1986, which introduced the principle of reinforcing Economic and Social Cohesion, associated with concern for regional re-balance and promoting development in the least favoured regions.

In 1992, the Treaty of Maastricht, in instituting EMU, enshrined Economic and Social Cohesion as one of the essential pillars of the new Europe. As a result of this development Community funds were gradually given a greater role as the best instrument for structural policies, implemented through two successive reforms made to Structural Funds, announced respectively in 1987 and 1992, as part of the so-called "Delors Package".

The main thrust of these reforms brought about two successive duplications of funds made available for structural policies, and the creation of the Cohesion Fund; funds were geared to two major priority objectives for development (*structural adjustment of more backward regions, reconversion of regions in decline, combating unemployment and providing vocational training, structural adaptation for agriculture and development of rural zones*); resources were concentrated on the less developed regions; intervention was made more effective, conducted through a strategy and a regional development plan (RDP) and multi-annual programmes with implementation based on more strict monitoring mechanisms, assessment and control.

Balance for the decade

It is within this framework of Community development that the major instruments used to support development policies in Portugal were designed and applied, particularly from 1989 on.

An analysis of the past 10 years corresponds, then, on the whole, to the period in which the two Community Support Frameworks were applied, although, naturally, execution of the same will go on beyond 1999. The balance that follows

will be a first look at the results achieved with the structural funds applied during the decade. An absence of final figures, yet to be calculated, and of official data on the analysis of both CSFs, means that the information below can only be seen as a preliminary reading of the situation, and is of course subject to the necessary adjustments and later correction.

The analysis of the information available for the period in which the two CSF were applied, that is from 1989 to 1999, reveals that:

– Portugal negotiated support from structural funds for about 27.500 million ECUs as part of the two financial inputs, which is a per capita input of about 270 ECUs.

– A breakdown of Community funds reveals the financial predominance of the Regional Fund - ERDDF (including a specific credit line for industry - PEDIP) 56%; ESF 20%; EAGGF –Guidance and FIFG 13% and the Cohesion Fund 11%.

– There was a 12 percentage point gain in GDP convergence per capita, (in ppp) compared to the Community average, that is, slightly higher than one percentage point per year.

– Transfers from the EU to Portugal assumed considerable importance for the national economy, on average amounting to 3.1% of GDP.

– These funds had a real average impact of 2.4% on GDP, indicating that Community financial transfers created an additional growth in imports.

– Structural funds represented about 8% of total gross fixed capital formation during this period, and the estimated investment associated with Community funding was around 16% of the total.

– On average, about 92,500 jobs, that is about 2% of employment, were associated with annual implementation of the CSF.

– Indicators on the wellbeing of the population also reveal substantial improvements during the period.

– Community support has helped reduce internal regional disparities, as recognised by the European Commission itself and by EUROSTAT.

– This growth was achieved at the same time as significant progress was made in terms of nominal convergence, which allowed Portugal to join the single currency – inflation dropped from 13.6% to 2%; the budget deficit fell from 5.1% to 2% of GDP; public debt was reduced from 66.9% to 56.8% in 1999.

– Support from Community funds demanded budgetary input that was around 1.3% of GDP, in annual average terms.

– The distribution of structural funds according to type of investment shows that priority was given to Human Resources, followed by support for Productive Sectors, Infrastructure and Environment.

Community Funds in Portugal 1989-1999

(PTE billion, current prices)

	Total 89-93	Total 94-99
Financial flows with EU		
Transfers from EU to Portugal from Structural Funds (a) in % of GDP	2,8	3,3
Implementation of CSF		
Macroeconomic impact of CSF (in % of level of variables)		
GDP	2,1	2,7
GFCF	6,5	9,5
Imports	2,7	3,4
Private Consumption	1,8	2,4
Employment (n° of jobs) (b)	85,4	98,4
National share of GGA in % of GDP	790,2	1248,3
in % of Total Spending of GGA	1,4	1,2
	3,1	2,6
Macroeconomic Indicators		
GDP (Vol. Var. rate)	2,6	3,1
GDP per capita in PPP (EUR 15=100)	*62,0	**73
Employment (Var.rate)	0,5	**0,7
Inflation	*12,7	**2,0
Global balance (GGA) in % of GDP	*-2,4	** -2,0

(a) Including Cohesion Fund and Community Initiatives

(b) Thousands of individuals

* Amounts at start of period** Amounts at close of period

Sources: Financial Flows with EU : 1989-1998: Direcção Geral do Tesouro; 1999

(Forecast): Report from EO for 1999. Implementation of CSF: DGDR and DPP (1998:

provisional figures; 1999: forecast). Macroeconomic Indicators: Up to 1998: INE, Ministry of Finance (GGA balance 1996 – 1999), DPP. For 1999: DPP forecasts.

Indicators of Well-being

Human resources	1990/91	1996/97
Rate of pre-school coverage at 4 years	44	58,9
Rate of schooling to 15 years of age	65	94,9
Rate of schooling 18-21 years of age (University Education)	7,7	14,4
Employees with higher education	6,8 (92)	7,5

Environment – Global attendance levels in %	1990/97	1997
Water supply	77	86
Waste water treatment	21	40
Waste water drainage	55	68

Infrastructure	1990	1997
Extensions made to highway network (Km)	303	797 (96)
% of railway electrified	14,7 (94)	24,1
% homes with telephone	55,1 (91)	79,7

Sources: DPP, MEPAT; PNDES 2000-2006, Diagnóstico Prospectivo; DAPP, ME; INE

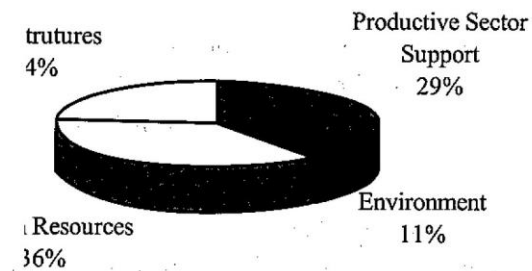
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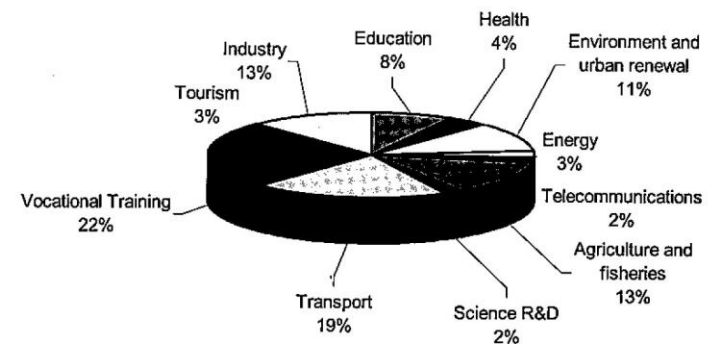
**Communit Funds by type of investment (*)
CSF I-II**



(*) Estimate prepared using data in: Structural Funds, 10 years, MAT (1995) and Assessment of the macroeconomic impact of CSF QCA, DPP (1999)

– An analysis into the sectoral distribution of funds reveals that vocational training and transport were the areas that benefited most from Community support.

**Sectorial distribution of Community funds(*)
CSF I-II**



(*) Estimate prepared using data in: Structural Funds, 10 years, MAT (1995) and Assessment of the macroeconomic impact of CSF QCA, DPP (1999)

Institutional aspects

Portugal's administrative organisation is highly centralised, with no administrative regions on the mainland, and with deep-rooted, municipality-oriented traditions. There are two Autonomous Regions, in Madeira and the Azores. Within this framework are the Commissions for Regional Coordination, bodies that are extensions of Central Administration, with responsibility for coordination and co-responsible for the management of investments made in the municipalities.

The institutional framework for the CSF was set up within this context, using the following guidelines:

- Definition and coordination of powers nationally, regionally and locally;
- Transparency and efficiency in management;
- Circulation of information among the different bodies involved;
- Decentralisation of powers;
- Participation of economic and social agents.

The institutional framework for the CSF was laid down at two levels (*see Table 1*):

Table 1
MANAGEMENT OF PORTUGUESE COMMUNITY SUPPORT FRAMEWORK

NATURE	INSTITUTION	CHAIRMAN	MEMBERSHIP	COMPETENCES
Coordination	Government Committee for the Structural Funds	Minister for Planning and Territorial Administration	Members of Government	Coordination of global CSF implementation
Management	Management Committee for the Structural Funds	General Director for Regional Development	General Director for: Social Fund Agriculture Fund Fisheries Fund Cohesion Fund.	Management of global CSF implementation
Follow-Up	Monitoring Committee for the CSF	General Director for Regional Development	Members of the Management Commission Managers of CSF Programmes General Director for Treasure General Director for European Communities General Director of Central Planning Office Presidents of Regional Coordination Committees Representatives of Autonomous Regions Representatives of the Municipalities Representatives of the European Committee and the European Investment Bank	Follow the implementation of all CSF Programmes Examine proposals for CSF modification
Evaluation	CSF Observatory Independent Evaluation Studies	Minister of Planning and Territorial Administration		Evaluation of CSF implementation and impact Data system for impact evaluation
Control	General Inspection of the Finance Ministry General Direction for Regional Development European Social Fund Department Agricultural General Inspection Financial Institute for Support to the Development, Agriculture and Fisheries			Evaluation of CSF control systems Coordination of control institutions Control of implementation Control of procedures
Social Participation	Social and Economic Council			Examine implementation reports

Political level

Coordination

- Coordination of internal measures of the CSF and Community negotiation is attributed to the Ministry of Planning and Territorial Administration.
- An intergovernmental commission was set up to include all the Ministries involved in the CSF.

Technical level

Management

- Global management is provided by the CSF management commission, which includes the national spokesmen for Community Funds.
- Management of each Programme is provided by a manager, backed by a technical unit.

Monitoring

- At the global CSF framework, a Monitoring Commission is set up to include all those involved in internal management and those responsible at Community level.
- The same model as that used for the global framework is set up for each Programme.

Assessment

- A CSF Observatory was set up as an autonomous body for assessment, involving independent specialists from several areas of intervention.

Control

- Actions are controlled at several levels, within each Ministry and in the Ministry of Finance.

Community Support Framework 1994/1999

Background

A detailed analysis of the RDP/CSF II will throw light on how the strategy operates and on its results.

Whenever the major guidelines were defined for the intervention of structural funds and the Cohesion Fund in the 1994/99 period, the Portuguese authorities defined a strategy based on two basic objectives:

- Ensuring a smooth transition between the two CSF, to avoid any disruption in the financial transfers from the Union;
- Guaranteeing a significant simplification in the cumbersome procedures that the 1989 reform had introduced and which led to excessive bureaucracy and slow moving circuits.

The definition of the RDP strategy, made in 1992, was based on a detailed diagnosis of the economic and social situation of the country, based on an interpretation of developments over the past ten years.

In analysing the progress made by Portugal since accession, and that had led to close alignment with the average of the other member states of the European Union, the fact that the country and its regions were still far from Community standards also became clear.

Portugal's negotiating position was clearly based on demonstrating that it had serious development problems requiring the State's active intervention and the use of means that could not be mobilised by the country alone.

In fact, during this period, GDP, productivity and real salaries had increased at a faster rate than the Community average; infrastructure and equipment, as well as levels of schooling and training, increased, and the level of services provided to the population improved in many fields.

However, although all this favourable development might reduce the structural backwardness of the country compared to European standards, the truth is that, from its type and scale, it continues to present a serious obstacle to the development process.

From this diagnosis, the following problems, among others, are underscored:

- Low level of instruction among the population and insufficient vocational skills in the workforce.
- The scarcity and insufficient specialisation on the domestic market.
- The fragility of industrial fabric.

- Insufficient infrastructure and facilities.
- Natural conditions and the cost of production factors added to the structural weakness of Portuguese agriculture and reduced the margin of competitiveness of arable and livestock production.

- Serious difference in levels of development throughout the country, and the local potential of certain regions under-used.

The RDP took account not only of the need to respond to the above-mentioned problems, but also to the new rules and eligibilities of structural funds and the experience gained with the first RDP, that recommended a certain number of new approaches.

The following are the main innovations in the RDP:

- With regard to areas receiving support, considerable more visibility is attached to the Environment, Urban Renewal, Health, Social Exclusion and any action benefiting the Rural World, and funds allocated to these areas greatly increased. These were all areas in which Community support in the first CSF was only timidly applied, but which in the second emerge with their own specific programmes. This is due to new regulations opening the way for these areas and because the problems underlying them have become felt more acutely and are more obvious.

In adopting the appropriate measures, two main guidelines are highlighted:

- In the productive sector, in incentives to private investment the sinking fund component has been reduced in favour of new financial engineering instruments such as venture capital;

- In infrastructure, a minimum investment threshold level has been established to give access to Community co-funding and every encouragement is given to inter and supra-municipal investment, where this is on a large scale and likely to have regional impact.

- With regard to practical measures, there was a decided move towards reducing the number of Programmes, with a view to improving the decision-making process and simplifying administrative and bureaucratic processes.

The former evaluations made by the Portuguese State and by the Commission of the European Communities, using teams of international consultants for the purpose, confirmed the following fundamental conclusions:

- The major priorities for developing Portugal are: improving human resources, modernising productive fabric and improving infrastructure.

- Measures taken in these three fields will have positive effects on reducing regional disparities and increasing social cohesion.

- Measures taken to modernise productive fabric and infrastructure should contribute towards improving the quality of the environment and quality of life.

The need to encourage a national-sectoral outlook was justified for three reasons:

- Development disparities in Portugal compared to the Community average are greater than those observed between the less prosperous regions in the country and the national average.

- Regional assessment studies show that the global development of the country, and particularly in the more prosperous regions, has a very important leverage effect on the less developed regions.

- Bearing in mind the size of the country, regional development support should complement national structuring measures.

All of the Portuguese proposals contained in the RDP were retained in the CSF. The strategy defined, priority measures, the balance between funds and planned programmes for operations were all maintained.

The Community Support Framework was approved by the European Commission and signed on February 1994 after eight months of negotiation. At the same time, financial decisions were signed for the operational programmes planned within the CSF, so that on the same day the instruments envisaged in them for implementation could be brought into force, allowing the first flow of funds to be transferred immediately to Portugal.

CSF II

CSF II is applied throughout Portugal

The development strategy for the 1994/1999 period is based on two objectives that were already part of the previous CSF:

- Drawing the Portuguese economy and communities closer to the average levels and standards of living of the Community (*real convergence*).

- Gradually reducing domestic regional disparities (*regional convergence*).

To implement these objectives, the CSF is based on two assumptions:

- The need to base sustained growth on a change in the structure of the economy and employment, making this more compatible with the way in which international markets evolve.

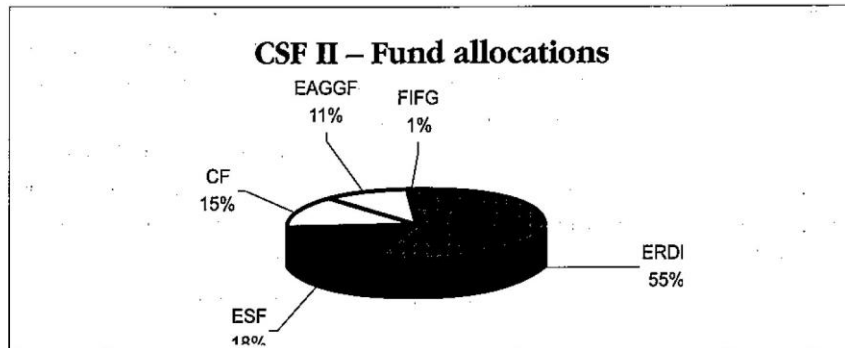
- The need to include a more significant approach for measures geared to improving quality of life and which can be implemented in parallel to changes that ensure the economy a competitive edge.

Such objectives are implemented using the following major priority approaches:

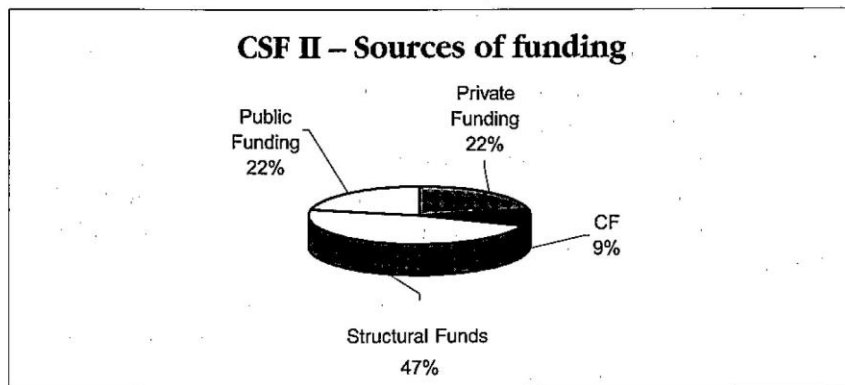
- Qualifying human resources and employment.
- Reinforcing the factors for a competitive economy.
- Promoting quality of life and social cohesion.
- Strengthening the regional economy base.

Around 15.500 million ECUs from Community funds were structural funds and FIGF. The remaining 3.000 million ECUs correspond to the average of the indicative interval attributed to Portugal, for this period, in the Cohesion Fund.

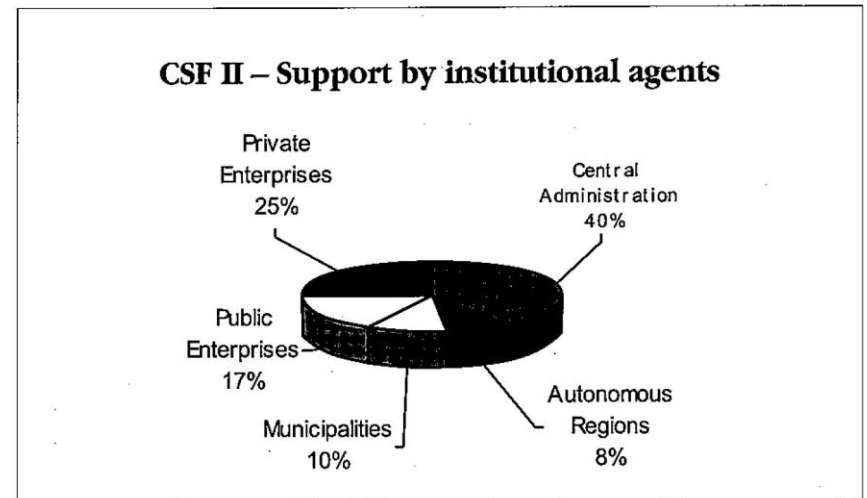
The break down of the amounts of inter-funds included in the CSF II is the following:



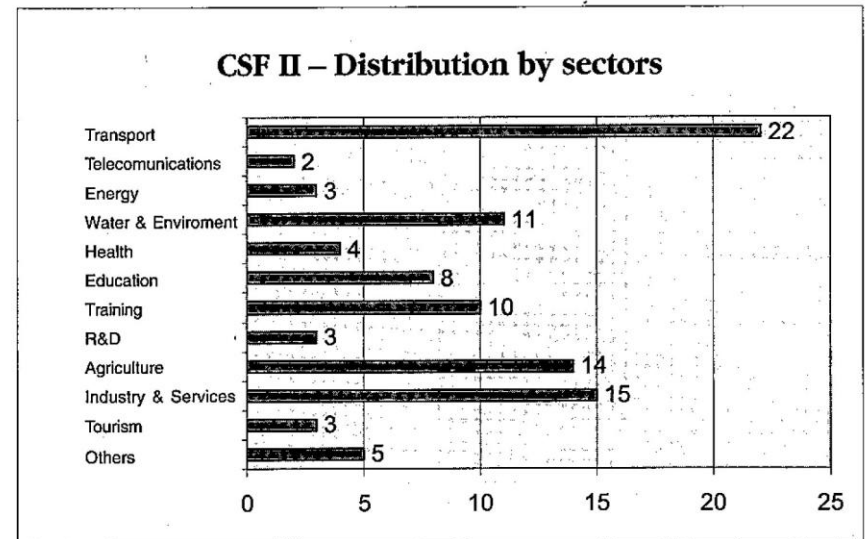
Community funds channelled to Portugal as part of the CSF II, together with the national financial share, both public and private, has meant an investment of over 30,000 million ECUs, that corresponds to public spending of more than 20,000 million ECUs.



The break down of Community support according to agent, reveals that Central Administration is the main beneficiary.

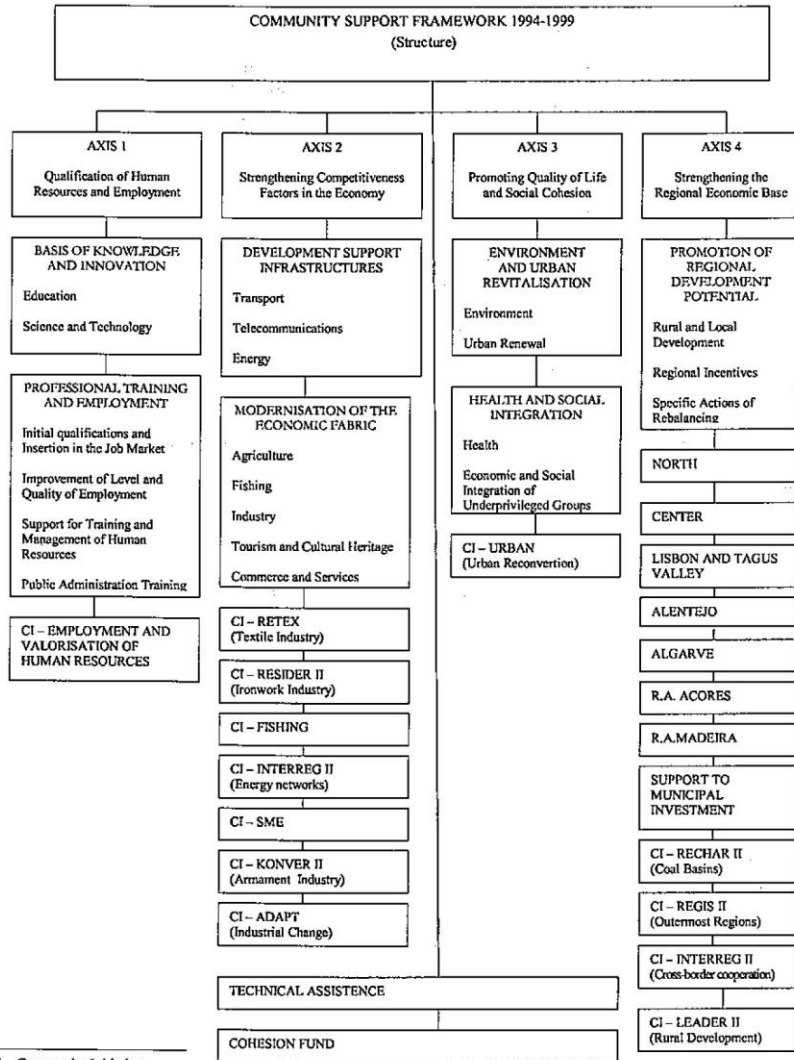


In 1994-99, transport was particularly relevant in the sectoral break down for Community support funds, followed by industry and services, and then agriculture.



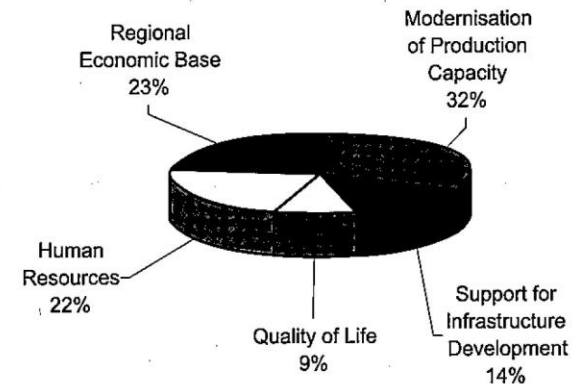
The break down of support from structural funds into major areas, reveals that the first priority was to modernise productive fabric, followed by an economic base for the regions and improving human resources.

Table 2



CI - Community Initiative

CSF II - Distribution by Axis



Assessment

A highly favourable global assessment of convergence and the results achieved by applying structural funds in Portugal, still requires a critical, studied analysis of the strong and weak points involved in its implementation.

Among the more positive aspects to be drawn from the Portuguese experience, the following merit special attention:

Technical preparation of dossiers

- The technical skill of the teams responsible for presenting proposals and for negotiations with Community authorities.
- A thorough understanding of the Community rules and mechanisms associated with structural policies.
- The quality and consistency of proposals, projects and programmes submitted for funding and their conformity with Community demands.

Internal coordination

- Effective internal coordination, attributing responsibilities for CSF negotiations and monitoring to one Ministry alone, avoiding several spokesmen dealing with Brussels.

–Good coordination between the management of investment programmes supported by Community funds and budgetary management, thus ensuring the necessary domestic share within a framework of containing public finances.

Partnership

–Good relations with the Commission services responsible for structuring measures, maintaining a climate of dialogue and trust, helping to fund solutions for most of the problems that arise in implementing the CSF.

Flexibility

–Rules of flexible management that apart from reducing the number of programmes in the current CSF, facilitate the introduction of inevitable adjustments along the way, without too much red tape.

Institutional Structure

–A professional management system, with a manager responsible for each CSF programme.

–A follow-up system and effective assessment, creating a CSF Observatory with independent specialists in the different areas.

These aspects allow a high level of implementation of the programmes and create the conditions for the absorption rate of Community funds being placed always among the most favourable of all the countries benefiting from funds, thus ensuring that a large and regular financial resources flow from the EU to the member state.

However, below are those most negative aspects in the Portuguese case that merit close attention:

Scale of measures

–The small scale of some measures, associated with the scattering of many, with high management costs and often of little impact.

Planning

– Incorrect physical and financial planning for some measures and excessive optimism for some objectives pursued by some programmes, leading to delays in implementation and a gap between expectations and reality.

Bureaucracy and centralism

– The complexity of decision making processes and difficulties in adapting the Administrative machine to the rules of co-funded projects, often leading to considerable delays in implementing measures, affecting, above all, the initiative of the private sector.

– Limited decentralisation of Administration, with weak technical capacity and regional services slow to mobilise local agents.

Subsidy dependence

– The excessive use of non-reimbursable subsidies to the private sector, to the detriment of other financial engineering schemes, creating excessive dependence on the part of investors on this type of support and removing the incentive from some innovative measures.

Participation

–Insufficient use of contracting bodies from outside Administration, namely the banking system, to manage programmes destined for the private sector, by using financial engineering schemes.

–Insufficient effective participation of social partners in preparation and follow-up of programmes.

Environmental impact

–Lack of priority given to environmental impact assessment, that lay at the root of several complicated situations that gave rise to significant delays in implementation.

Many of these aspects are naturally linked to the traditional practice of centralised, bureaucratic services provided by public Administration, for which, despite

some progress already achieved, a constant effort must be kept up with a view to modernising procedures and increasing the involvement of economic agents.

Assessing the socio-economic impact of CSF instruments is a complicated task and one that is relatively recent. It can only be consistent with an analysis of medium and long term effects. This means that at this stage there are no final facts and figures leading to any definite conclusions on the effectiveness of several specific CSF instruments.

However, from the data resulting from on-going assessments, and from experience already gleaned, the following can be said:

- Infrastructure programmes are those with the most visible results, particularly road and telecommunication networks.

- Human resources programmes took the following shape:

- considerable work was done in the area of education and research infrastructure. Investment in the school network helped improve access and quality of teaching, and reinforced the vocational component of the educational system. Despite large investments in infrastructure for research there are no clear changes in the organisation of the national scientific and technological system, nor has there been any significant increase in the participation of companies in R&D programmes;

- despite solid funding mainly from the ESF, results achieved are far from those planned, and the improvement in the qualification of human resources has been only moderate.

- There are some major contrasts in the situation with programmes addressing the productive sector:

- improvements in investment in industry with positive results in productivity, technological modernisation and industrial capacity in some sectors, and

- deterioration of the situation in agriculture, where some of the main obstacles were removed and alternative activities created, with farmers suffering a fall in income during the period.

- In examining regional development programmes, good results were obtained with regional incentives being used, and these had a positive impact on creating new activities and jobs and in improving living conditions in some regions in the interior. However, the objectives for promoting the rural world fell short of target.

Conclusions

Although the development problems of each country and their respective economic and social situations mark and condition the way in which structural funds are

applied and the capacity for their application, the fact is that some aspects drawn from the experience of other member states remain a valid recommendations in all cases.

The inferences to be drawn from the Portuguese experience reveal that the results achieved with structural funds depend very much on a combination factors in the following areas:

Preparing the RDP and Programmes

- The development strategy underlying the RDP must be designed in very close harmony with the priorities in the EU's structural measures, at all times adapting to important features along the way – currently emphasis is placed on creating jobs, promoting competitiveness and innovation, environmental protection, urban issues, rural development and equality of opportunity.

- The RDP should be based on a global diagnosis of the economic and social situation that realistically identifies the structural obstacles to be overcome, and indicates the factors of competitiveness and development potentials on which Community intervention concentrates.

- The RDP should be based on a careful evaluation of the absorption capacity of Community funds, bearing in mind the possibilities for mobilising internal budgetary shares, within a framework of macroeconomic and financial stabilisation sustainable in the medium term.

- The break up of measures should be avoided, and an adequate scale assured for programmes and financial engineering schemes used that combine sinking fund subsidies with other sources, thus contributing to more impact from Community intervention.

- The permanent use of ex-ante, on-going and ex-post evaluation instruments are an important contribution for assessing results and correcting approaches.

Internal organisation

- The clear attribution of competencies and responsibilities to public institutions, separating the functions of execution, evaluation and control, it is the touchstone of the institutional framework.

- Management bodies for each programme, with a manager responsible for each intervention, have been highly effective.

- Clear internal technical and political coordination of the CSF is indispensable for good implementation, negotiating capacity and internal disputes.
- The effective participation of the social partners is a decisive factor in selecting the right objectives and the efficiency of instruments in the different sectors and regions.

Relations with the European Union

- Having “one voice alone” in Brussels for the member states in dealing with the CSF is extremely important and effective in relations with the Commission’s services.
- Regular technical dialogue with the Commission’s services responsible for structural measures helps resolve a considerable number of problems arising in execution, in most cases avoiding turning them into political issues that could make solutions difficult as well as relations among parties
- A good understanding of Community rules and mechanisms is fundamental, and demands a professional, qualified and specialised staff in administration.

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European Integration of Portuguese Agriculture

Armando Sevinate Pinto

The situation prior to accession

When twenty three years ago, in 1977, Portugal applied to join what was then the European Economic Community, agriculture was the sector of most concern to the Portuguese authorities.

Despite the economic and social importance of agriculture still being fairly significant at the time (17% of GDP and 30% of the work force)¹, agriculture was economically and technically in a state of stagnation and was suffering from a radical lack of structure.

Agriculture had been in a state of crisis for many years and had at the time recently been the object of a collectivist style agrarian reform. Yield from land and labour was certainly the lowest of all the countries in western Europe, investment was lacking, infrastructure insufficient, land ownership highly restrictive (average area of 5 hectares divided into 7 blocks) and farming incomes were showing little sign of increasing.

Therefore not only were legal, technical and administrative difficulties in the way of harmonisation with the more integrated, complex Community policy, but also the impact of competition with the other more developed European countries, with better productive structures and average production levels from 3 to 5 times higher than those in Portugal.

¹ The whole agri-forestry sector (including the food industries) then represented almost 1/5 of GDP and involved more than 1/3 of the work force.

However, although farmers were aware of these differences and their weaknesses, on the whole they did give their support to the project for European integration, and they had high expectations. These expectations had to do with the natural desire for stability following the intense political disturbance that affected the sector after the revolution in 1974, and with the promised financial support that was expected to contribute considerably towards modernising Portuguese agriculture and to removing some of its traditional constraints.

Apart from this, in 1977, when accession was requested, Portuguese agricultural prices were lower than those in Europe in practically all sectors. At this time, the prices of most agricultural products were fixed administratively within the context of a complex subsidy system (to production factors and also directly to consumers) maintained through a network of "Economic Coordination Agencies" which, in some cases, held exclusive trading rights for a large number of staple agricultural products (cereals, oil seeds, meat, sugar ..).

As a result of this system, agricultural prices were substantially different to those applied on the international market and a large number of Portuguese farmers, in most agricultural sectors, had no experience in the workings of the market.

The prices problem came to have a central role in the accession negotiations in view of the fact that they changed dramatically over the nine year period in which the negotiations took place. During this time, almost all Portuguese agricultural prices (with the exception of wine, olive oil, tomatoes and several fruit and vegetable products) rose above Community prices, reflecting high rates of internal inflation as well as the fact that some of the more important subsidies for production factors were gradually removed (for example, for fertilisers and compound animal feeds).

Of concern to the Portuguese authorities was the fact that Portugal at the time was a large, net importer of agricultural products coming from the world market and particularly of those, like cereals, which, within the Common Agricultural Policy, paid high customs duties into Community budget.

At the time it was thought that applying European mechanisms would increase the price of food products for consumers² and lead to an excessive contribution to the Community budget, turning Portugal into a clear net contributor.

² Whether these products were imported from the European market or the world market.

The negotiations and the Accession Treaty

All of the concerns mentioned above made agriculture a key area in accession and systematically meant that the Portuguese authorities had to adopt an apprehensive, cautious or defensive position in the negotiations.

This position was always understood by the Community authorities and, in particular, by the European Commission, with which Portugal had achieved a good negotiating relationship based on mutual trust. This was reflected in the terms of the Accession Treaty and, above all, in the nature and duration of the transition period.

Apart from a long transition period being agreed (from 7 to 10 years), the Treaty recognises the specific features of Portuguese agriculture and includes clauses that are highly defensive and protective. They also contain safeguard positions both for controlling relations between Portugal and the other 10 member states, and with Spain whose accession took place at the same time.

It should be emphasised that although officially the representatives of the Community regularly affirmed that the Portuguese and Spanish applications would be examined exclusively on their own merits and that the negotiations would be independent, in practice the two processes became linked and interdependent. The question of the very prolonged negotiations and the long transition period, initially badly received by the Portuguese authorities who saw in it a postponement of full accession and the status of a lesser member state, was justified by the weak structure of Portuguese agriculture but, in reality, expressed the fears of the other European countries (particularly France) faced by the enormous potential of Spanish agriculture.

Immaterial of the political circumstances underlying the constant postponements to accession and the way in which the process evolved by fits and starts, personally I feel that this prolonged period also had positive results.

Firstly, there was time to go into a detailed technical and legal comparative analysis of Portuguese and Community agriculture and to make a thorough examination of Community agricultural law and all of its regulations and mechanisms. This avoided many surprises along the way and all of the derogation mechanisms could be identified that were justified to respond to special situations.

Secondly, it was an excellent opportunity for collectively training hundreds of Portuguese specialists in the different State departments, for whom these exercises provided fundamental experience in gaining familiarity with the Community institutions and with their complex regulations.

I am convinced that the Portuguese strategy of setting up large official delegations (20 to 25 technical staff from several ministries) who moved to Brussels to take part in these exercises³, was one of the most effective Portuguese investments in the future and, probably, one of the reasons underlying the success of Portuguese integration and the solidly based (and “unexpected”) preparation generally attributed to the Portuguese staff who have handled the technical aspects of this integration.

Apart from this, a very useful programme of administrative courses was provided for Portuguese staff in the different Commission services. This together with the experience associated with administering pre-accession Community aid, and with the many technical and negotiating contacts made during the negotiations, allowed the people involved to improve their understanding of these affairs and contributed towards increasing the mutual confidence decisive for successful integration.

Portuguese negotiating experience, as mentioned before, was characterised by considerable trust placed in the European Commission and by the serious approach made to the negotiations, manifest in the negotiating documents and information provided, all of which was of considerable importance.

Throughout the negotiations and also during the different stages of integration, this approach contributed decisively towards a favourable attitude within the Community towards Portugal.

Having mentioned agrarian reform before, I should add that its evolution was never the object of negotiation, nor of any direct interference by the Community authorities. Legalising the reform process took place over time in the framework of democratic transition and consolidation.

As is usual, the Accession Treaty defined the rules for harmonising agricultural markets and structures, the system for price harmonisation, aid and specific duties as well as derogation mechanisms and structural support for development.

A mixed system was used for the transition itself. For a series of products, that globally represented no more than 15% of Portuguese production and for which no major integration difficulties were foreseen⁴ a *classical transition* period was granted to last for 7 years, the same as that used for previous enlargements.

³ And who were sometimes criticised at home as being costly and of little use.

⁴ Covering olive oil, oil seeds, lamb, processed fruit and vegetables, tobacco, hops and seeds.

For other products, for which more difficulty in integration was expected and which represented the larger part of Portuguese agricultural production⁵ a *stage-by-stage transition* was agreed, lasting for 10 years, divided into two 5 year periods.

In the case of the *classical transition*, it was agreed that for a period of 7 years the level of prices and subsidies, as well as specific customs duties for third countries, were harmonised gradually (in *tranches*), while at the same time, gradually, incompatible subsidies and specific duties would be eliminated.

However, to facilitate trade when price differences did occur, a correction system was set up of “compensatory amounts” and, to avoid unexpected consequences, a Complementary Trade Mechanism and a Monitoring Committee were set up, while Portugal gradually applied the respective Common Market Organisations (CMOs).

In the case of the *stage-by-stage transition*, for the first stage of 5 years, for the products covered, Portugal was authorised to maintain in force “the previous national regime” for the organisation of its domestic market and a certain number of structural and preparatory objectives were fixed⁶ that were to facilitate the application of a classical type transition during the second stage of 5 years, planned to end in 1995.

Furthermore, it was agreed that during the first stage the EEC would not participate in market support costs and Portugal would not transfer to the Community budget any income from customs duties charged on the import of agricultural products coming from third countries.

During the second stage, the EEC would support the market intervention costs and Portugal would then participate, although only gradually, in the own resources of the Community.

The Treaty established a highly favourable scheme for Portugal to gain access to structural funding for agriculture. Immaterial of the type of transition applicable, Portugal benefited, right from the start of accession, from all socio-structural mechanisms and from more favourable specific provisions existing at the time to benefit the less favoured regions of the Community.

Apart from this, in terms of structure, Portugal also benefited from a “Specific Agricultural Development Programme”⁷, lasting for ten years, funded by 700 million

⁵ Including the milk, beef and pig meat sectors, fresh fruit and vegetables, cereals and rice, poultry and eggs and wine.

⁶ Based on an Action Programme, established by mutual agreement, and applying several factors (prices, aid and production) with precise rules for different situations.

⁷ The object of which was defined in protocol n.º 24, attached to the Accession Treaty.

ECUs and with an average co-funding rate that was finally agreed at 75%. This Programme, the detailed content of which was only approved in the "interim period" (six month period following the start of accession), was to a certain extent the supplementary Community response to the weak state of Portuguese agriculture and aimed mainly to develop rural infrastructure and gradually correct the main structural imbalances (land, commercial and industrial) affecting Portuguese agriculture.

In short, the negotiations and the Portuguese Accession Treaty reflected the extreme care taken by the Community, provoked by negotiating the Spanish case at the same time, and a defensive attitude on the Portuguese side justified by the fear that the shock of integration might economically cause the already weak Portuguese agriculture to founder even more.

The final result was deemed satisfactory at the time of accession. Although it was known that sooner or later Portuguese agriculture would be faced by its lack of competitiveness and with the results of being abandoned for decades, the long transition period and the structural support planned did in some way compensate and justified some mitigated expectations and optimism.

The impact and the results of 14 years of integration

The effects on agriculture

Now that fourteen years have elapsed since integration, much has changed in Portuguese agriculture although the effects have not all been felt in the same way in all sectors, and not all the changes, for better or for worse, have been exclusively the result of European integration and the Common Agricultural Policy:

- the importance of the agricultural sector has fallen significantly, from 8% to only 2.9% of gross added value out of the whole economy, and from 20% to around 12% of the total work force⁸;
- the number of holdings has fallen 39% (from 651,000 to 399,000) and the average area has increased 48% (from 6.3 to 9.4 hectares of agricultural area per holding);
- the volume of labour used fell 53% (from 1,034,000 to 490,000 agricultural work units);

⁸ Although the agri-forestry sector, including the food industries, still accounts for around 10.5% of added value of the economy and 17.4% of the work force.

- the volume of agricultural production rose by around 16% which, together with growth of around 31% of intermediate consumption, led only to a slight increase of 2% in product (added value);

- in real terms, the prices of agricultural products fell 49%, and despite direct aid to producers increasing by around 300%, the joint effect of this dual development led to a net reduction of 44%;

- the total income obtained by the agricultural sector (taking into account the transfers of income through public aid) fell 43% in real terms. However, in view of the sharp fall in the number of holdings and the number of working units, income per holding fell only 6% and increased 21% when expressed in units of labour.

In comparative terms, the structural adjustments made in Portugal have not been sufficient to align the country significantly with the other member states of the European Union. The indicator used to draw this comparison (net added value per unit of labour) is still lower than one third of the European average.

Analysing what has happened in the Portuguese agricultural sector over the fourteen years of integration justifies dividing this period into three distinct phases.

1986 to 1989 was the period of optimism: investment in agricultural holdings tripled, in the agri-industries investment was six times higher and in basic infrastructure more than 10 times higher compared to the years prior to accession. During this period, productivity from agricultural labour increased notably but, although it may seem a contradiction, agricultural incomes did not keep pace with the optimism of farmers because prices fell in real terms, although only slightly.

From 1989 to 1993 real prices fell even more intensely and farming income fell substantially, although not all sectors were affected in the same way. The rate of investment slowed and gradually farmers became disheartened. During this period, the transition in stages, which should have gone on until the end of 1995, was brought forward with a view to encouraging the working of the Community single market and the Portuguese market was prematurely exposed to outside competition.

The effects of these changes were clearly amplified, because the exchange policy used meant that national production was not competitive and because the rapid settlement in Portugal of several hypermarket chains encouraged a rise in food imports.

Finally, in 1994, there was a slight recovery in farming incomes although on a very uncertain annual basis and varying among the different agricultural sub-sectors.

Some sectors did evolve more positively and benefited from a favourable market situation, the case with wine, while others suffered serious depression, the

case with arable crops (with the exception of maize that had some success) and others, the case with milk and partly with meat, that managed to compensate some price pressures with significant improvements in yield. At the same time as this economic development, significant changes were taking place in production structures, technologies and infrastructure.

The most important changes affecting production structures have already been mentioned briefly and involve mainly the considerable fall in the number of holdings and in the agricultural work force.

In terms of production technologies, the agricultural sector was modernised significantly from the time of accession to what was then the EEC. This happened, as mentioned before, as a result of the considerable investment made, particularly in the years immediately following accession.

The rate of mechanisation in holdings increased considerably with the acquisition of tractors and other mechanical equipment; the use of quality production factors improved, many techniques and irrigating equipment were modernised; modern orchards and vineyards were planted and, although at a rate slower than planned, forests were expanded in certain parts of the country.

Infrastructure was targeted by the public sector and significant support was given that led to positive results: dams were built; roads opened, improving access to many holdings; electricity was extended to rural areas; the network of training centres spread; although insufficient, marketing and processing structures improved with hundreds of projects funded that had a positive impact on quality, hygiene and on the competitiveness of food products; health coverage improved in the animal sector; support was given to setting up many hundreds of farmers' associations and a true group approach took root in certain regions in setting up integrated projects for rural development.

Community support

None of this would have been possible without considerable, decisive Community support which increased to levels considerably higher than that planned in the Accession Treaty, and which merits should be underlined.

This support, in this case that of EAGGF, Guidance section, specifically geared to improving agricultural structures, increased regularly: from 32 million ECUs in 1986 to around 260 million annually, on average, between 1989 and 1993, as part of the First Community Support Framework; after that, from

1994 to 1999, as part of the Second CSF, average annual funding was around 315 million euros.

Agricultural structural funding became essential to make some headway in correcting the comparatively unfavourable situation caused by the market support component which is financed 100% by the Guarantee section of EAGGF.

In fact it is in Community funding to the market sector that the Portuguese situation has been least favourable and at home has given rise to most discontent and controversy. This is the sector in which the CAP is financially more active and which, because this funding is related to production volume, is distributed in such a way that it heavily penalises member states with lower production levels, and/or, in the case of Portugal, those in which products with little support are significant in the country's productive structure. This probably underlies the most obvious of the current contradictions in the CAP which gives more support to those who produce most and, through quotas and other types of quantity restrictions defined on the past production levels in each country, functions like a true brake on the development of production in the less developed member states.

The paradox is clear in the Portuguese case. Despite receiving in annual funding associated with the Common Market Organisations a significant sum from EAGGF Guarantee⁹ in comparison Portugal receives less than the European average and has one of the lowest rates of Community support although it has one of the poorest and least evolved agricultural sectors in the European Union!

Institutional organisation

Special attention both by Portugal and the European negotiators was given to the organisation of Portuguese public administration to act as a framework and to manage the process of integration in agriculture.

Firstly, one of the more sensitive aspects in the agricultural case involved the future of the Economic Coordination Agencies and the way in which their status should be changed and their commercial functions, where they were incompatible with Community law, altered (removed). Secondly, a definition had to be found for the national administrative structures required to intervene on markets and handle Community support for market and structures.

⁹That rose from 30 million Ecus in 1986 to around 700 million in 1994 and 1995 and, in more recent years, to an average sum of around 550 million euros.

With regard to the coordination agencies, although adjusting them to Community law has been planned and implemented, the Portuguese authorities were too indecisive and had difficulties in resolving the problem of the residual structures of some of these agencies which, in the case of cereals, still remains a cumbersome, confused process yet to be resolved.

In reviewing the agencies handling Community funding, after examining the experiences in all the other member states, the Portuguese authorities decided to set up two autonomous public agencies, one for markets and the other for structures.

To this end one public institute under the authority of both the Ministry of Finance and of Agriculture, specialising in funding the primary sector (IFADAP) was used, as well as a specific service belonging to the Ministry of Finance (the Supply Fund), which previously handled subsidies for the food sector, that was reinforced with staff from the former coordinating agencies (INGA).

Although the possibility of merging these two institutes into one is currently being examined, the Portuguese experience in this area has been positive regarding the way in which the duties of these institutes have been performed, although there may be some doubt as to the effective costs of running them.

Bearing in mind the tremendous efficiency that technology provides today, and the integrating tendency of European policy, there are obvious advantages in having one, small scale body, as the sole linkage for the services of the European Commission, if this has to be created from the start and can be supported by reliable, decentralised agricultural organisations.

The effects on consumers and on foreign trade

The benefits of accession for consumers are important and varied. Firstly, the supply of food products increased, diversified and clearly improved in quality. Secondly, consumers benefit from the changes in agricultural prices already described, although less in proportion to the reduction in production level which were partly appropriated by processing/distribution circuits.

The benefits for consumers are obvious from the general, annual change in prices in Portugal which, since accession, have been systematically higher than the specific change in food prices, which contributed significantly towards controlling internal inflation.

However, in view of little increase in agricultural production, a sharp increase in the consumption of food products and greater integration in European markets, foreign trade in agricultural and food products¹⁰ made poor progress for Portugal:

- from around 900 million ECUs in 1986, the deficit more than double in 1998, 2.270 million euros (around 13% of the trade balance in the economy);
- the rate to which imports are covered by exports for all agricultural and food products worsened and in 1998 was around 35%;
- the level of agri-food self-sufficiency fell, although slightly, to figures close to 87%.

In summary, the European integration of Portuguese agriculture was done within a context that has led to obvious structural and technological improvements, the effect of which is generally positive. However, this effect has not been sufficient to remove the main structural handicaps from the sector nor to compensate farmers for the highly negative effects of economic development, the main result of which was a considerable fall in their income, that continues to be far behind that of farmers in the other member states of the Union.

There is still much to be done which will involve risks and challenges. But Portuguese farmers will be able to face these successfully if they are given the necessary support on a structural level, as has been done to date, and more support at market level, reducing restrictions and distortions that currently exist.

However, consumers have benefited from accession, compared to the situation before, because in real terms food prices have fallen and the conditions of supply have improved sharply, both in terms of diversity and quality.

Looking at the country as a whole, it is not easy to determine precisely all of the economic and social effects of the European integration of Portuguese agriculture. This is mainly because globally these effects are highly interdependent and their influence on separate sectors is difficult to isolate.

Although this is a controversial issue the results of which depend on the methods used in the analysis, I think the country as a whole clearly has been the net beneficiary of agricultural integration from the financial point of view, bearing in mind all the financial transfers and flows associated with the CAP and all the direct and indirect effects on producers and consumers in Portugal.

¹⁰ Essentially Portugal imports cereals, oil seeds and meat, and exports wine, beverages and processed vegetables, apart from several forestry products particularly cork, paper and paper pulp.

Portuguese Experience of European Cooperation in the Fields of Justice and Home Affairs

Nuno Piçarra¹

I. The growing importance of European cooperation in the fields of Justice and Home Affairs and its impact on Member States.

1. Acceptance of an *acquis* in the fields of Justice and Home Affairs (hereinafter the “JHA *acquis*”) was not included among the accession conditions when Portugal joined the European Union (EU).² The same occurred with any other of the Member States. However, nowadays, any candidate State must accept and implement a substantial JHA *acquis* as developed up to the date of accession to the EU. The main steps in this evolution were the Treaty of the European Union (TEU) and the Treaty of Amsterdam (TA) which amended the former and which came into force on 1 May 1999.

1.1. Cooperation on JHA matters among Member States was not entirely unknown before the TEU came into force. It was, however, limited and developed outside the institutional and legal framework of the European Communities.

The first case of cooperation in the JHA area was the so-called “TREVI Group” (terrorism, radicalism, extremism, and international violence) set up in 1976 and composed, at its highest level, of the JHA ministers of the Member States. The aim was to establish cooperation against terrorism, drug trafficking and organised unauthorised immigration.

¹The author thanks Ms. Ana Cristina Branco and Ms. Luísa Maia Gonçalves for all their technical support in preparing this text.

²More precisely, Portugal joined the European Communities. The EU only came into legal existence when the TEU came into force, on 1 November 1993. The European Communities then became the First Pillar of the EU and JHA cooperation became its Third Pillar.

There was also the “Ad hoc Immigration Group”, created in October 1986 at British initiative and composed of the ministers concerned in the Member States.

European Political Cooperation, introduced in 1986 by the Single European Act, was also a forum outside the European Communities where Member States worked together in the JHA area. Some instruments which now form part of the JHA *acquis*, such as the Convention determining the State responsible for examining applications for asylum lodged in one of the Member States of the European Communities, the Convention on the application of the principle of *ne bis in idem* and the Convention on the transfer of proceedings in criminal matters were adopted within that framework.

1.2. It was Title VI of the TEU that was decisive for cooperation among Member States in the area of JHA within the EU. According to Article K.1 of that Title, in its original version, for the purposes of achieving the objectives of the EU, in particular the free movement of persons, Member States regard as matters of common interest the following areas: (1) asylum policy, (2) rules governing the crossing by persons of the external borders of Member States, (3) immigration policy and policy on nationals of third countries regarding conditions for entry, movement and residence in the territory of Member States, family reunion and access to employment as well as combating unauthorised immigration, (4) combating fraud on an international scale, (5) judicial cooperation in civil matters, (6) judicial cooperation in criminal matters, (7) customs cooperation, (8) police cooperation for the purposes of preventing and combating terrorism, illegal drug trafficking and other serious forms of international crime.

However, the *acquis* formed by the instruments adopted by the Council in implementing those provisions achieved neither the expected development nor the practical effects that such important matters would justify. This was certainly one of the reasons why the TA deeply changed the framework of JHA cooperation created by the TEU. The TA transferred to the scope of the European Community the areas of asylum policy, immigration policy and policy regarding nationals of third countries and judicial cooperation in civil matters provided for in points 1 to 3 and 6 of ex-Article K.1, a transfer that gave rise to the new Title IV of Part III of the Treaty instituting the European Community (TEC) on “Visas, asylum, immigration and other policies related to free movement of persons”. Furthermore, the TA confined Title VI of the TEU to police and judicial cooperation in criminal matters.

1.3. Despite this fragmentation in the treatment of JHA matters, Titles VI of the TEU and IV of the TEC are indissolubly linked by the purpose mentioned in

the Preamble and Article 2, fourth indent, of the revised version of the TEU which is “to maintain and develop the Union as an area of freedom, security and justice, in which the free movement of persons is assured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime”, and “to provide citizens with a high level of protection by developing common actions among the Member States in the fields of police and judicial cooperation in criminal matters and by preventing and combating racism and xenophobia”. Stressing that link, Article 61 (a) of the TEC expressly includes among the measures which the Council will adopt pursuant to Title IV, those which are provided for in Article 31 (e) of Title VI of the TEU regarding the prevention and combating of crime.

2. Outside the framework of the European Communities, five Member States – Germany, France, Belgium, the Netherlands and Luxembourg – signed on 14 June 1985, in Schengen, Luxembourg, the Agreement on the gradual abolition of controls at their common frontiers, and the Convention implementing such an Agreement (the “Schengen Convention”) on 19 of June 1990. Portugal, as well as Spain, acceded to both Schengen instruments on 25 June 1991 and were part of the group of seven EU Member States which on 26 March 1995 abolished checks on persons at their common borders and implemented the so-called compensatory measures for that abolition.

2.1. The main reason for the establishment of such cooperation among those five Member States was the impossibility of reaching a unanimous decision on the abolition of checks on persons at the common borders of all the Member States within the Council of the European Communities. This abolition was considered by several Member States as the key to the free movement of persons in an area without internal borders, which had been formally included in the TEC in 1986 as an essential feature of the internal market.

The Schengen *acquis* covers visas, asylum, external border controls and the conditions for the movement of nationals of third countries, as well as police and judicial cooperation in criminal matters. Participating in implementing the Schengen *acquis* constitutes one of the most important aspects of the Portuguese experience of cooperation on JHA matters.

2.2. The Schengen *acquis* was incorporated into the framework of the EU on 1 May 1999 when the TA came into force. A Protocol attached to the TEU and TEC regulates the institutional and legal issues posed by that incorporation (the “Schengen-”

gen Protocol”).³ This means that the Member States which have signed or acceded to the Schengen instruments⁴ are authorised to pursue the cooperation based on them, within the EU framework, using the institutions, proceedings and mechanisms established in those two Treaties. The Schengen *acquis* is now an essential part of the JHA *acquis*, although it can be developed autonomously within the new framework.

As laid down in the preamble of the Protocol, the Schengen *acquis* is “aimed at enhancing European integration and, in particular, at enabling the European Union to develop more rapidly into an area of freedom, security and justice”. In fact, not only was one of the essential objectives of the Union attained through that *acquis*, although (still) not applied in all Member States, but also, as we will see later on, a degree of operational cooperation among Member States, unknown, so far, in the framework of the Third Pillar of the EU.

It is, therefore, predictable that the integration of the Schengen *acquis* into the EU will add new impetus to JHA areas that may compensate the partial failure of the EU in dealing with them in the past. Furthermore, the Schengen *acquis* can now be developed within a more solid, democratic and transparent institutional framework than the one in which it was created, as well as within a more accessible and controllable legal framework.

3. The Portuguese participation in JHA and Schengen cooperation involves a number of important national Public Administrative bodies – the Immigration Department, Criminal Police, Public Safety Police, Customs Authorities, Public Prosecutor’s Office, etc.

3.1. All those bodies are represented in the various groups making up the working structure of the EU Council for JHA matters. Until the TA came into force, those national authorities were also represented in the different groups of the Schengen institutional structure, then replaced by the working structure of the Council. At national level, the same authorities are responsible for the implementation of the Schengen *acquis* as well as the remaining JHA *acquis*. Implementation de-

³ On the Schengen Protocol and its implementation, see Nuno Piçarra, “The Integration of Schengen into the European Union” in *The Rights of the Individual in relation to Police Information Systems*, Colloquium organised by the Schengen Joint Supervisory Authority, Lisbon, 1999, pages 29–46.

⁴ With the exception of the United Kingdom and Ireland, all other Member States of the EU have acceded to the Schengen Agreement and the Schengen Convention. However, when the TA came into force, only Austria, Italy and partially Greece met the conditions required to join the group of seven Member States that apply the Schengen *acquis*. Denmark, Sweden and Finland are still in a preparation process for that effect.

mands not only the adoption of new domestic legislation but also the adaptation of the national administrative structure. This involves creating new authorities and establishing new forms of coordination among them.

3.2. Portugal, like the other Member States implementing the Schengen *acquis*, had to fulfil previously some very strict conditions. Each State acceding to the EU has to meet the same preconditions to be able to remove controls at their internal frontiers.⁵ The decision confirming a State’s ability to implement the Schengen *acquis* is taken unanimously by the Council comprised of the Member States named in Article 1 of the Schengen Protocol.⁶

We will now examine briefly the preconditions required to implement the Schengen *acquis* and their consequences for the Portuguese State (II). Afterwards, we will see how Portugal has implemented the obligations resulting from the remaining JHA *acquis*, also recalling its main aspects (III).

II. Obligations arising from the Schengen *acquis* and their effect on the Portuguese State. Monitoring and evaluating implementation

4. The Schengen *acquis*, today an essential part of the JHA *acquis*, was defined in a Council Decision adopted on 20 May 1999, pursuant to Article 2 (1) second subparagraph, first sentence, of the Schengen Protocol.⁷ A second Council Decision, of the same date, establishes the legal basis of each component of the defined *acquis* in the TEU or in the TEC.⁸

4.1. The logic of cooperation based on the Schengen *acquis* is summed up in the Joint Declaration concerning Article 139 in the Final Act annexed to the

⁵ Article 8 of the Schengen Protocol provides that “for the purposes of the negotiations for the admission of new Member States into the European Union, the Schengen *acquis* and further measures taken by the institutions within its scope shall be regarded as an *acquis* which must be accepted in full by all States candidates for admission”.

⁶ See the second statement made by the Council when it adopted the Decision determining, in conformity with the relevant provisions of the Treaty establishing the European Community and the Treaty on European Union, the legal basis for each of the provisions or decisions which constitute the Schengen *acquis*, published in the Official Journal of the European Communities (OJ) L 176 of 10.7.1999, page 30.

⁷ Council Decision concerning the definition of the Schengen *acquis* for the purpose of determining, in conformity with the relevant provisions of the Treaty establishing the European Community and the Treaty on European Union, the legal basis of each of the provisions or decisions which constitute the *acquis*, OJ L 176 of 10.7.1999, p. 1.

⁸ See footnote 6.

Schengen Convention which is now legally based on Articles 2 (2) and 8 of the Schengen Protocol. According to that Declaration, removing checks on persons at the common or internal borders of the Schengen States is not possible until the preconditions for that purpose have been fulfilled in those States and checks at their external borders are effective, i.e., at their land, maritime and aerial borders with third States.

Stressing the precondition concerning the effectiveness of checks at external borders shows another essential feature of the Schengen logic: the assumed reduction of safety conditions as a result of removing controls at internal borders should be compensated by the reinforcement of controls at the external borders of the Member States implementing the *acquis* and that form the so-called Schengen Territory. In this light, such a precondition, like any other precondition provided for in the Declaration of the Ministers and Secretaries of State made on 19 June 1992, is a “compensatory measure” to combat the reduction of safety apparently caused by removing controls at internal borders.⁹

4.2. Before taking a brief look at the content of each of the seven preconditions, it is necessary to systematise them as the criteria on which they are based are not evident and the order in which they are listed in the Declaration issued on 19 June 1992 seems quite arbitrary. The condition on the external border controls and the condition on the movement within international airports, relate, *grosso modo*, together with the visa regime, to the policy regarding nationals of third countries. The condition on the processing of applications for asylum is a special aspect of this policy. Furthermore, the condition for combating drug trafficking is globally included in police and judicial cooperation in criminal matters. The purpose of the Schengen Information System (SIS) is to maintain public policy and public security, including national security, in the Schengen territory and to apply correctly the pro-

⁹ That Declaration was afterwards confirmed by the Decision of the Schengen Executive Committee of 14 December 1993. It provides for as follows: “according to the Joint Declaration (...) included in the Final Act, especially its second paragraph, the entry into force of the Convention requires that an effective cooperation is defined and carried out by the Member States in the following areas:

- checks at the external borders and Common Manual;
- rules on issue of a uniform visa and Common Consular Instructions;
- processing applications for asylum;
- implementation of the Schengen Information System;
- enforcement of the Convention provisions on narcotic drugs;
- enforcement of the provisions on protection of personal data;
- arrangements for movement within airports”.

visions on the movement of persons, particularly nationals of third countries, using information communicated via this system. Finally, the establishment of a regime for the protection of personal data in the SIS is a “compensatory measure of a compensatory measure”, imposed with the principle of protection of fundamental rights, applicable in all Member States.

As mentioned before, these preconditions are highly demanding and meeting them requires considerable budgetary, material and human resources. That is particularly the case with setting-up and maintaining the SIS. It is also the case with external border controls, not only because of the number of staff required, mainly in those Member States with very large, exposed external borders, but also because of the cost of the increasingly sophisticated technology used in border controls. Even airport adaptation requires high investment. As a matter of fact, the international airports of Member States must be adapted to ensure that passengers moving only within Schengen Territory are kept separate from those passengers travelling to or from third States and who, necessarily, are subject to border checks. This regime also applies *mutatis mutandis* to the international ports of Member States.

Portugal, a small, peripheral country with no external land borders is immediately in better condition than other Member States such as Germany, Austria, Italy or Greece, to control efficiently its external borders in compliance with the Schengen standards.

4.3. It should be stressed that control at external borders, “in accordance with standard principles”, and visa and asylum regimes do not apply to nationals of EU Member States, but to citizens of third States, i.e., aliens according to the wording of the Schengen Convention, wishing to enter and move within the Schengen Territory.¹⁰ Schengen cooperation presupposes, therefore, the establishment of a common policy for the entry and movement of nationals of third States.¹¹

¹⁰ Article 5 of the Schengen Convention is particularly clear on this purpose when it lays down that entry into Schengen Territory may only be granted to an alien who meets the following conditions: (1) is in possession of a valid document authorising him to cross the border; (2) is in possession of a valid visa if required; (3) if applicable, must submit documents explaining the purpose and the conditions of the planned visit and proving sufficient means of support, during the time of the planned visit and for the return to their country of origin or for travel in transit to a third State, into which entry is guaranteed, or that the individual is in a position to acquire such means legally. Article 6 specifies that aliens must be subject to a “thorough check” at external borders.

¹¹ With the entry into force of the TA that common policy shall be developed under Title IV of the TEC and especially Articles 62 to 64. Declarations 16 to 19 annexed to the TA are applicable. Thus, (1) for the purposes of adopting or amending the rules on short term visas “foreign policy considerations of the Union and

The visa regime is based on a "uniform visa" which is, in principle, valid throughout Schengen Territory for a maximum stay of three months. It is issued by the diplomatic and consular authorities of the Schengen States, based on a common list of third States whose nationals require such a visa.¹² Specific procedures adopted for that purpose, including cases where the national central authorities must be consulted, are provided for in the Common Consular Instructions. This consultation system requires the national central authorities of the Member States to be linked through a computer network, known as VISION (*Visa Inquiry Open-border Network*).

In brief, the Schengen scheme for the movement of persons allows aliens who (1) hold a uniform visa, (2) are not subject to visa obligations or (3) hold a resident permit, to move freely within the Schengen Territory for a maximum period of three months according to the conditions laid down in Article 5 of the Schengen Convention.

Finally, the asylum regime is provided for in the Convention determining the State responsible for examining applications for asylum lodged in one of the Member States of the EU. This Convention, signed in Dublin in 1990, by the then twelve Member States of the European Communities replaced, at the date of its entry into force (1 September 1997), the Schengen provisions on asylum which were until then applicable. In this Convention, Member States agreed to provide all applicants for asylum with a guarantee that their applications would be examined by one of the Member States, and to ensure that such applicants would not be referred from one Member State to another with no State accepting jurisdiction to examine their applications.

4.4. Implementing Schengen *acquis* for combating narcotic drugs requires each Member State to adopt a series of harmonised measures (1) against the production, exporting and trading of narcotics, (2) against the demand for narcotics and (3) concerning the lawful transport of narcotics.

the Member States shall be taken into account" (Declaration 16 concerning Article 62 (2) (b)); (2) in the framework of the immigration policy, the Member States may negotiate and conclude agreements with third countries "as long as such agreements respect Community law" (Declaration 18 concerning Article 63 (3) (a)); (3) when exercising their responsibilities with regard to the maintenance of law and order and to safeguarding of internal security, "Member States may take into account foreign policy considerations" (Declaration 19 concerning Article 64 (1)). This new frame allows the Member States to better safeguard, before EU, their privileged relations with certain third States.

¹² The existence of the so-called "grey list" of third States, to which nationals certain Schengen States require a visa and others do not, is naturally inconsistent with the logic of a uniform visa. Complete harmonisation of the visa policy will determine, therefore, the abolition of such a list.

In addition, to combat the illegal import of narcotic drugs, Member States must set up their controls for the movement of persons, goods and means of transport at their external borders. They must also adopt specific legal instruments for seizing and confiscating assets derived from the illegal trafficking of narcotic drugs.

The different forms of police and judicial cooperation in criminal matters laid down in the Schengen Convention are particularly suitable instruments to combat illegal trafficking in narcotic drugs. For instance, the cross-border police cooperation, subject to bilateral negotiation, allows the authorities in a Member State to carry out surveillance and pursuit within the territory of another Member State.

4.5. SIS is the key among the compensatory measures to abolishing internal border controls. It involves a network of computer data files, one for each Member State, under its exclusive responsibility (N.SIS). Each N.SIS is connected to the others through a central data file (C.SIS) located in Strasbourg. The main function of the C.SIS is to ensure data integrity and to ensure via on-line transmission that the data files of the N.SIS contain the same information. SIS records and supplies alerts on persons: (1) wanted for arrest for extradition purposes, (2) who are missing, (3) that must be temporarily placed under police protection, (4) who have been summoned to appear before the judicial authorities, (5) who are under discreet surveillance or specific controls (also applicable to vehicles) and (6) for whom an alert has been issued for the purposes of refusing entry into Schengen Territory (only applicable to aliens). Apart from this, the SIS records and supplies alerts on vehicles, fire arms, blank official documents and authentic identity papers that have been stolen, misappropriated or lost, as well as registered bank notes. The categories of data which may be recorded in the SIS, as well as the contents of such records, are strictly fixed by the Schengen Convention.

The SIS enables the authorities designated by the Schengen States, by means of an automated search procedure, to have access to alerts on persons and objects for the purposes of border controls and police and customs controls carried out within the respective territory. The authorities responsible for issuing visas, the central authorities responsible for examining visa applications and the authorities responsible for issuing residence permits and the administration of aliens only have access to data on aliens for whom an alert has been issued for the purposes of refusing entry into the Schengen Territory.

To be fully operational, SIS, as a mere data basis, requires a suitable human interface, i.e., a central authority on permanent alert in each Member

Sate, and responsible for the correct operation of the respective N.SIS. This national central authority is called SIRENE (*Supplementary Information Requested at the National Entries*). SIRENE's goal is to ensure (1) the efficiency of the exchange of information, (2) the validation of the alerts entered according to applicable national legislation, (3) the immediate availability of supplementary information necessary for the performance of the actions required by the alerts, (4) the management of conflicts of interest between Member States regarding certain alerts and (5) the monitoring of permissibility, updating and accuracy of the data recorded in SIS. Each SIRENE acts pursuant to common rules and procedures which are provided in detail in the SIRENE Manual.

The data protection regime applicable to SIS is laid down not only in the Schengen Convention but also in two other compulsory instruments for the Schengen States: the Council of Europe Convention for the Protection of Individuals with regard to the Automatic Processing of Personal Data, of 28 January 1981, and Recommendation R (87) of 17 September 1987 of the Committee of Ministers of the Council of Europe regulating the use of personal data in the police sector. Each Schengen State must designate a supervisory authority responsible, under national law, for carrying out independent supervision of the data file of the respective N.SIS as well as for checking that the processing and use of data contained in the SIS do not violate the rights of the person concerned. An essential aspect of the regime is the individual right to ask the national supervisory authorities to check data contained in the SIS and the use that is made of such data. Furthermore, a joint supervisory authority, composed by two representatives of each national supervisory authority, is responsible for supervising the C.SIS.¹³

4.6. Comparing the Schengen *acquis* with the measures the Council must adopt to implement Title IV of the TEC and Title VI of the TEU, the conclusion is that most of those measures are already included in that *acquis* and now form part of the JHA *acquis*. Suffice to mention the absence of checks at internal borders, external borders crossing regime, the visa regime, the measures taken against unauthorised immigration or the conditions and limits within which the competent police authorities may intervene within the territory of another Member State.

¹³ Regarding the SIS and the data protection regime applicable to it, see Ester Guedes, "Data Protection in Connection with the Coordination of National Information and in Communication between States", in *The Rights of the Individual*, *op.cit.*, pages 55-63; João Labescat, "Joint Supervisory Authority: activities defending individual rights vis-à-vis the Schengen Information System", *ibidem*, pages 21-28.

Item 26 of the Action Plan of the Council and the Commission on how best to implement the provisions of the TA on an area of freedom, security and justice is worth quoting in this context.¹⁴ It is stated therein that "integration of the Schengen *acquis* into the framework of the European Union will have as a consequence that as from the date of entry into force of the TA, the objectives of the Community as set out in Article 62 of the TEC, and to a large extent in Article 63 (3) (b) of the TEC, in their versions of the TA will largely have been realised in respect of 10 Member States, and in respect of 13 Member States as from the date of the decision of the Council referred to in Article 2 (2) of the Schengen Protocol. This is to say that much of the substantive work will have been done far in advance of the 5 years time limit set by the Articles concerned. It would permit the Council to concentrate initially particularly on other objectives of the Community and the Union in the field of Justice and Home Affairs for the realisation of which a maximum time limit of 5 years has been determined [Article 63 (1) and (2)(a) TCE and Article 30 (2) TEU, for example] and to deal with matters which would require urgent handling or become politically important."

5. It is easily understood that a cooperation system like the one based on the Schengen *acquis* can only work on the basis of mutual confidence among Member States that have abolished internal border controls. In fact, each Member State must be sure that the others implement the compensatory measures at a level of efficiency that does not disturb the common safety of the whole. This is particularly evident in relation to checks at external borders. The situation in the Schengen States varies substantially depending on the length of their external borders, the proximity of high pressure immigration areas and also if they are (or are not) the preferred targets of such immigration pressures.

5.1. Not surprisingly, the first mechanism for assessing the capacity of a State to implement the Schengen *acquis* was the external borders visiting committees. The aim of these committees was "to gather information about the general organisation of external border controls as well as about the means deployed and the main problems which arise when those controls are carried out", and to "make concrete proposals to solve the problems detected". All Member States that have abolished their internal border controls were previously assessed by a visiting committee.

5.2. Despite the positive outcome of the work of the external borders visiting committees in maintaining and strengthening mutual confidence among

¹⁴ Approved by the JHA Council of 3 December 1998 and published in the OJ C 19 of 23.1.1999.

the Schengen States in such a politically sensitive area, it was agreed to change them into a more trustworthy, efficient instrument with wider scope. To this end, a decision was adopted on 16 September 1998 to set up a Standing Committee on the evaluation and implementation of the Schengen *acquis*. This committee is made up of a high-ranking representative from each Member State. Its jurisdiction covers the following:

- verifying whether each candidate State fulfils the preconditions for abolishing internal border controls on persons;
- verifying whether each Member State, where internal border controls on persons have been abolished, applies the Schengen *acquis* correctly, in such a way that it does not affect the common safety of the whole.

The Standing Committee visits all States, in an order and at intervals to be laid down by the JHA Council. Locations to be visited and information to be gathered are selected by the Standing Committee on a case-by-case basis. Until now, the Standing Committee has visited Greece, with the specific task of verifying whether this country fulfils all the preconditions for the abolition of internal borders controls. It has also visited Germany, to verify whether the Schengen *acquis* is correctly implemented in this country.

In the case of Member States such as Portugal, where there are no internal border controls, the Standing Committee is competent to detect any problems and to identify situations which do not comply with the standards laid down by the Schengen *acquis*, as well as to make technical proposals to improve the implementation of the compensatory measures. The areas subject to assessment by the Standing Committee extend across the whole of the Schengen *acquis*.¹⁵ However, priority should be given to the following:

- external border checks and surveillance;
- conditions for issuing of Schengen visas;
- police cooperation at border areas;
- performance of the SIS.

¹⁵ With the entry into force of the TA, a part of the Schengen *acquis* became subordinate to the new Title IV of the TEC. Therefore, according to Article 211 of TEC, the European Commission has the power to supervise the implementation of this part of the *acquis* by the Member States. Thus, in a statement made when the above quoted Council Decision determining the legal basis for the Schengen *acquis* was adopted, the Commission stressed that the integration of the Standing Committee in the framework of the EU “does not in any way affect the powers it has from the Treaties and in particular its responsibility as guardian of the Treaties”.

With regard to checks and surveillance at the external borders, the Standing Committee examines: (1) checks carried out at the authorised crossing points as well as at areas located between such points; (2) the technical means available, in particular for detecting counterfeit documents; (3) the adequacy of staff levels at the borders visited; (4) coordination between mobile and stationary patrols; (5) training for officials, *inter alia* in the detection of counterfeit documents; (6) the measures taken at external borders to combat illegal immigration and crime in general; (7) the measures taken against individuals not admitted at the border or against individuals who are illegally on Schengen Territory; (8) the means deployed to combat illegal immigration networks; (9) existing forms of cooperation with neighbouring States; (10) the administrative organisation of the services responsible for combating illegal immigration and for coordination among them at national and local level; (11) the use of SIS at border posts.

With regard to the conditions for the issue of Schengen visas, the Standing Committee examines the way in which the following works: (1) the consultation system with other Member States prior to the issue of visas to nationals of some third countries; (2) consultation with the SIS prior to issuing Schengen visas; (3) the issue of exceptional visas (quantity, target groups, grounds); (4) the supply of Schengen stickers for uniform visas and their storage conditions.

With regard to police cooperation at the border areas of the Schengen States, the Standing Committee verifies: (1) the existence of bilateral agreements; (2) the exercise of the right to pursuit and surveillance; (3) the organisation of cross-border cooperation; (4) direct cooperation between agencies (5) the equipment and staff deployed in the border region for security purposes; (6) cooperation involving liaison officers.

Concerning the SIS, the Standing Committee has to verify: (1) the technical means and the procedures used to transfer information from the national information systems to the N.SIS; (2) the technical availability of the N.SIS and the respective SIRENE bureau; (3) the end user's access to SIS data; (4) the conditions for deleting alerts that have expired; (5) the use of different possibilities with regard to alerts; (6) the operational capacity of the national SIRENE bureau.

5.3. It is well known that control and surveillance of borders is traditionally a exclusive attribution of each sovereign State. Therefore in establishing as the fundamental goal the abolition of checks on persons at the common borders of Member States, the Schengen system, with no exaggeration, began a new era in

European integration. The originality of the Schengen system also rests on the transparency each Member State must use in implementing the compensatory measures at a time characterised not only by the end of the “iron curtain” but also by the exponential increase in immigration pressure and by more sophisticated transnational crime. Understandably the Schengen system also includes a “safety valve” that allows each member, at its internal borders, to carry out transitionally national border checks appropriate to the situation (Article 2 (2) of the Schengen Convention) for reasons of public policy or national security.¹⁶

However, a reiterated conclusion drawn by the Standing Committee, that a given Schengen State does not fulfil correctly its obligations as established in the *acquis*, would mean, in the long term, the *de facto* exclusion of such a State, by its partners, from the cooperation based on that *acquis*. This would have high political costs for the State concerned, but also for the entire Schengen group.

6. Portugal’s accession to Schengen has meant not only the assumption of certain international undertakings, but also the adoption of a set of legislative and administrative measures indispensable for the proper implementation of the *acquis*.

6.1. As to the first item, Portugal has undertaken to ratify two Council of Europe Conventions: the Convention of 28 January 1981, on the protection of individuals with regard to automatic processing of personal data, and the Convention of 20 April 1959, on mutual assistance in criminal matters. Furthermore, to implement the visa policy, Portugal has undertaken not only to renounce certain bilateral agreements on visa abolition, but also to conclude them with certain third States (Hungary, Poland, etc.).

In order to preserve the Visa Waiver Agreement concluded with Brazil on 9 August 1960, by which Brazilian citizens could stay six months in Portuguese territory, Portugal has undertaken to readmit to its territory Brazilian nationals who, having entered the territories of the other Schengen States via Portugal under that Agreement, were intercepted in those territories after a period of three months, the maximum legal stay permitted for nationals of third States. That agreement was then substituted by another, signed in Brasília on 15 April 1996. As laid down in Article 20 of the Schengen Convention, the new agreement establishes a ninety day period for such a stay.

¹⁶ France has invoked this provision in order to maintain, since 26 March 1995, checks at its common borders with Belgium and Luxembourg to prevent drug trafficking from the Netherlands, where the sale of the so-called light drugs is legalised, in certain conditions.

Portugal has also undertaken to admit only Brazilian citizens insofar as they fulfil the conditions laid down in Article 5 of the Schengen Convention and to take all steps to ensure that their travel documents are stamped when they cross its external borders. Due to the special relations between Portugal and Brazil, the enforcement of such undertakings raised some political difficulties between the two countries.

6.2. Another undertaking, this one connected to judicial cooperation in criminal matters, which is causing some difficulties to Portugal, concerns a restriction to extradition from Portuguese territory. Portugal made its own political decision to continue to apply to other Schengen States the reservation made to Article 1 of the European Convention on Extradition of 13 September 1957. According to this reservation, Portugal will not extradite persons wanted for an offence punishable by a life sentence, or detention order for life, under the law of the requesting State. This reservation seemed excessive to the other Schengen States. As a matter of fact, the legislation in most of them on the enforcement of criminal sanctions does not allow, in practice, life sentences.

Therefore, Article 5, second paragraph, of the agreement on Portugal’s accession to the Schengen Convention includes a clause intending to reduce the range of such a reservation. It provides as follows: “The Portuguese Republic shall not grant extradition of persons wanted for an offence punishable by a life sentence or detention order for life. Nevertheless, extradition will be granted where the requesting State gives assurances that it will encourage, in accordance with its law and practise regarding the enforcement of sentences, the application of any measures of clemency to which the person whose extradition is requested might be entitled”.

However, this clause has not solved the difficulties arising from a reservation of this scope. Apart from anything else, this clause was given a very restrictive interpretation by the Portuguese Constitutional Court, which makes extradition almost impossible in the most serious criminal cases. Under these circumstances, it is essential for the Portuguese State to demonstrate to the other Members States that any denial of extradition based on such a clause will always determine, either trying individuals whose extradition is refused or applying the maximum sanction allowed by national law. It is understandable that Member States requesting the extradition of a person from Portugal to no avail, would like a clear guarantee that extradition denial by the Portuguese authorities will never give rise to injustice or impunity.¹⁷

¹⁷ The constitutional provisions on extradition were amended in 1997. A new provision (Article 33 (5)) determines that “Extradition in respect of offences punishable under the law of the requesting

6.3. The most significant legislative measures adopted by Portugal to implement the Schengen *acquis* concern the conditions of entry, stay, exit and dismissal of aliens from Portuguese territory. Such a legal framework was established in 1993 and was replaced afterwards by a legislative act of August 1998. The latter expressly refers to the Schengen *acquis* and to the JHA *acquis* on the movement of persons. It provides for a detailed regime on external border controls, different types of visa, kinds of travel documents and the residence permit, the dismissal or the expulsion of third country nationals from Portuguese territory, readmission and sanctions against illegal immigration, etc.

In this context, a legislative act was also adopted to set up centres where aliens who have not been allowed entry to national territory, or who are in an irregular situation, may stay temporarily.

6.4. Furthermore, Portugal had not only to allocate the new functions and powers resulting from the Schengen *acquis* to a number of national authorities, but also to set up the new bodies imposed by this *acquis*.

To this end, Portugal designated the Criminal Police as the competent authority in the area of cross-border surveillance and hot pursuit. The Ministry of Justice is the competent authority for extradition and transit requests. The authorities designated as end users of the SIS are the National Republican Guard, the Public Safety Police, the Criminal Police, the Immigration Service, the Customs Directorate-General, the Consular Directorate-General, the Public Prosecutors' Office and the criminal investigation judges.

The Portuguese N.SIS was integrated into the Immigration Service and the SIRENE National Bureau (N.SIRENE) is directly dependent on the Home Affairs Ministry. The N.SIRENE was designated as the central body responsible for international police cooperation as laid down in Articles 39 and 46 of the Schengen Convention, with jurisdiction in the area of mutual police assistance for the purposes of preventing and detecting criminal offences and preventing threats to public policy and public security.

Portugal has police bodies integrated in the Ministry of Home Affairs (Immigration Service, Public Safety Police, National Republican Guard), and in the Ministry of Justice (Criminal Police). It has not been easy to coordinate them within the Schengen framework.

One specific example is the relationship between the N.SIRENE and the Interpol National Bureau which is integrated in the Criminal Police. However, coordina-

State, by deprivation of liberty or detention order for life or an indeterminate term, shall only be permitted on condition of reciprocity based on an international agreement and provided that the requesting State gives an assurance that such sentence or detention order will not be imposed or enforced". However, it is not sure that the new provision will resolve once and for all the underlying problems.

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Strengthening Schengen cooperation should lead to an integrated model in which the N.SIS, the N.SIRENE and the Interpol National Bureau become part of a single central body responsible for all police cooperation matters.

6.5. Special mention should be made to cross-border bilateral police and judicial cooperation between Portugal and Spain within the Schengen framework. Spain is the only State with which Portugal has an internal land border. In neighbouring situations, the Schengen Convention allows and encourages special bilateral police and judicial cooperation.

Concerning police cooperation, and specifically cross-border hot pursuit, Portugal only allows the Spanish authorities to continue pursuit of persons in Portuguese territory under the following conditions: (1) the pursuing authorities do not have the right to apprehend, (2) may not exceed 50Kms from the border or a maximum period of two hours and (3) must notify the need for pursuit to the Portuguese authorities as soon as possible. Furthermore, the pursuit is only allowed whenever certain criminal offences are involved. These principles are established, with full reciprocity, in the Agreement on cross-border hot pursuit signed by Portugal and Spain on 30 November 1998, pursuant to Article 41 (10) of the Schengen Convention and Article 3 of the Agreements on the accession of both countries to the latter. The Agreement of 30 November 1998 extended the power of cross-border pursuit to four Portuguese police bodies. It is the last of a set of six bilateral agreements concluded between Portugal and Spain within the scope of the Schengen *acquis*:

– Protocol on police cooperation on combating illegal drugs and vehicle trafficking, dated 9 March 1992, setting up a mixed working group composed of experts from the Criminal Police and the security forces of both countries;

– Additional Protocol on police cooperation on surveillance and control at external borders, management of mass immigration, asylum and combating illegal immigration, dated 15 July 1998, providing for the promotion and exchange of liaison officers and useful information for the control of external borders, and the prevention and repression of illegal immigration;

– Agreement on the readmission of persons in an irregular situation, dated 15 February 1993, by which each contracting party undertakes to readmit to its territory, following a request by the other party, the national of a third country who: (1) has transited or stayed

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in its territory and has moved to the territory of the other party without fulfilling the necessary conditions; (2) does not fulfil the conditions for entry or stay applicable in the territory of the requesting party, but holds a valid visa, residence permit or an alien citizen's passport issued by the requested party;

– Agreement on mobile patrols, dated 17 January 1994, in which both countries undertake to implement a control system of that kind on both sides of the border, to allow the joint and coordinated surveillance of the common border for the purpose of combating illegal immigration from third States;

– Agreement signed on 19 November 1997, on the creation of mixed border posts composed of officers of both countries, aiming to develop police cooperation at borders in the following fields: (1) combating illegal immigration and especially unauthorised immigration networks and falsification of travel documents; (2) prevention and repression of crime, especially in relation to narcotic drugs; (3) implementation of measures taken according to the above mentioned Agreement on readmission. Three of the four mixed posts established by the Agreement (two in Portugal and two in Spain) are already in operation.

Portugal and Spain have also signed on 19 November 1997 an Agreement on judicial cooperation in criminal and civil matters in accordance with Article 53 of the Schengen Convention. The Agreement provides for the direct transmission of requests for mutual assistance between the border courts of both Member States. The Agreement defines as border courts, the courts of both States bearing jurisdiction in geographically contiguous or neighbouring areas.

III. The obligations of the Portuguese State resulting from the remaining JHA *acquis* and the monitoring and evaluation of its performance

7. As mentioned before, due to a variety of hindrances as the lack of political will in several Member States, and bilateral conflicts such as the Anglo-Spanish conflict over Gibraltar, cooperation within the Third Pillar of the EU has been disappointing with respect to external borders and the policy on nationals of third countries, i.e., in the areas included in points 1 to 3 of the ex-Article K.1 of Title VI of the TEU. In fact, the *acquis* based on those provisions was of little importance until the entry into force of the TA.¹⁸ But in the areas of customs, police and judicial cooper-

¹⁸ See Chapters I. (Asylum), II. (External borders) and III. (Migration) of the list on the JHA *acquis* prepared by the Council and the Commission to be forwarded to the candidate States (document 6473/3/98 JHA 7 ELARG 51 of 25 May 1998).

ation, as well as in combating organised crime, fraud and corruption, the outcome is considerably more visible.

7.1. In the latter areas, the work done within the Third Pillar consisted mainly of creating the general legal framework for cooperation between Member States. An example in the area of customs cooperation is the Convention of 18 December 1997 on mutual assistance and cooperation between customs administrations. Judicial cooperation in criminal matters is covered in the Convention of 10 March 1995 on Simplified Extradition Procedures, in the Convention of 27 September 1996 on Extradition between the Member States of the EU¹⁹ and recently in the Convention on judicial mutual assistance in criminal matters of 29 May 2000.

Within the framework of police cooperation, the main instrument is the Convention on the establishment of a European Police Office (Europol) of 26 July. The objective of Europol is to improve cooperation among the competent authorities in the Member States in preventing and combating terrorism, unlawful drug trafficking and other serious forms of international crimes where there are factual indications that an organised criminal structure is involved, and two or more Member States are affected by the types of crime in question in such a way as to require a common approach by the Member States. That convention entered into force on 1 October 1998, after having been ratified by all Member States. Europol began operating on 1 July 1999. It provides a day-to-day instrument for cooperation and will be an important source of information for Member States' police. At a later stage, it will have operational competence, as provided for in the TA.

In this context, there is also the Convention of 26 May 1997 on combating corruption involving officials of the European Communities or officials of Member States, and the Convention of 26 July 1995, as well as its two Protocols, on the protection of the financial interests of the European Communities. A Joint Action of 17 December 1996 concerns the approximation of the laws and practices of Member States to combat drug addiction and to prevent and combat illegal drug trafficking, and a Joint Action of 24 February 1997 concerns measures to combat trafficking in human beings and the sexual exploitation of children. The Joint Action of 26 May 1997 deals with cooperation on law and order and security.²⁰

¹⁹ In the Portuguese-Spanish Summit of 29 October 1996 it was agreed that this Convention would be provisionally applied to relations between both Member States according to its Article 18 (4).

²⁰ The comparison between this latter Joint Action and the Schengen Manual on police cooperation in the field of public order and security shows clearly the "operational advance" of the Schengen *acquis* in relation to the *acquis* concerning Title VI of the TEU. Both instruments provide for the establishment, for

7.2. The Joint Actions establishing the training and exchange programmes for officials of the Member States responsible for implementing the JHA *acquis* are also a significant outcome of the cooperation in the framework of Title VI of the TEU.

The multi-annual programmes adopted by the Council since 1996 are: (1) the Oisin programme for customs and police repressive services, (2) the Stop programme for the authorities responsible for combating trafficking in human beings and the sexual exploitation of children, (3) the Grotius programme for agents of justice, (4) the Odysseus programme for the authorities responsible in the field of asylum, immigration and crossing external borders and (5) the Falcone programme for the authorities responsible for combating organised crime.

7.3 However, the most important issue within the scope of Title VI has been the combat of organised crime, maximum priority after the TEU came into force. Several instruments already mentioned relate to that area. Approval by the Council on 28 April 1997 of the Action plan to combat organised crime²¹ was a mile stone in the process. The plan contains fifteen political guidelines and thirty recommendations as well as target dates and the list of authorities responsible for implementation.

The Action Plan gave birth to some other significant instruments such as the Joint Action of 29 June 1998, on the creation of a European Judicial Network; the Joint Action of the same date, on good practice in mutual legal assistance in criminal matters; the Joint Action of 21 December 1998, on making it a criminal offence to participate in a criminal organisation in the Member States of the EU. The Joint Action of 5 December 1997 establishes a mechanism for evaluating the application and implementation at national level of international undertakings in the fight against organised crime.

This latter Joint Action, which confirms the growing importance of the JHA *acquis* in the area of organised crime, provides for setting-up evaluation

prevention purposes, of a systematic exchange of information between Member States if sizeable groups of people, that could pose a threat to law and order and security, travel from one Member State to another in transit or in order to participate in events (sport events, rock concerts, demonstrations, road blocking protest campaigns, etc.) For such a purpose, both instruments provide for the designation, in each Member State, of a central body which, according to the respective domestic law and upon request or unsolicited, will exchange information on the nature of the event concerned, the nature of the group and overall composition, the routes to be taken and stopping-off points, means of transport used by the group, etc. Furthermore, the Schengen Manual provides for (1) the detachment and exchange of *ad hoc* liaison officers in case of reception of communications or information about concrete danger threats, (2) the coordination of operational plans in concrete cases and (3) the setting up *in situ* of *ad hoc* direction and coordination centres.

²¹ OJ C 251/1 of 15-8-1997.

teams composed of three experts for each Member State to be assessed, chosen by the Presidency, ensuring that they are not nationals of the Member State in question. At least five Member States should be assessed per year. Such assessment is carried out at two stages: firstly, the State being assessed should answer a questionnaire drawn up by the Presidency assisted by the General Secretariat of the Council; secondly, when the questionnaire is returned, the evaluation team visits the Member State in question to meet the political, administrative, police, customs and judicial authorities or any other relevant body, as laid down in a schedule of visits arranged by the visited Member State. The schedule takes into account the wishes expressed by the evaluation team. After the visit, the team draws up a draft report, which is discussed by the Council following a hearing of the assessed Member State. The conclusions of the report are adopted by consensus. The Council may, when appropriate, address any recommendations to the Member State concerned and may invite it to report back on progress it has made on a deadline set by the Council.

7.4. In this context, cooperation with the Central and Eastern European countries within the scope of the Third Pillar also has to be mentioned. The most important event so far has been the conclusion of a pre-accession pact on organised crime²² between the EU Member States and the applicant countries of Central and Eastern Europe and Cyprus. They agree to cooperate fully in fighting all kinds of organised crime and other forms of serious crime. Underlining the need for the applicant countries to implement the JHA *acquis* before they join the EU, the pact provides for, *inter alia*, (1) establishing integrated multidisciplinary teams at national level, (2) rapid and efficient exchange of information for purposes of investigation and mutual legal assistance, as well as in the field of operative and investigative support, (3) mutual exchange of law-enforcement intelligence, (4) the joint preparation of a comprehensive policy against corruption in all its forms and (5) the improvement of the use of liaison officers and liaison magistrates.

The pre-accession pact also provides for regular monitoring and assessment of developments in the field of organised crime in each candidate State, using collective assessments done by the experts from Member States and the Commission. This point was developed in the Joint Action of 29 June 1998 establishing a mechanism for collective assessment of the enactment, application and effective

²² OJ C 220/1 of 15-7-1998.

implementation of the JHA *acquis* by the applicant countries. The assessment is made and revised by a group of experts of the Member States based on the following material: (1) information provided individually and collectively by Member States based on their direct experience of working with the candidate countries, including information available within Schengen; (2) reports, as appropriate, from the Member States Embassies and Commission delegations in the candidate countries; (3) Council of Europe reports on the implementation of its conventions and recommendations. The group of experts reports to the Council on the progress and the results of the assessments.

The JHA *acquis* marks, therefore, one of the most substantial differences between the accession process of present and future EU candidates and all the former accession processes.

8. It is understandable that the impact of the JHA *acquis* adopted within the framework of Title VI of the TEU was much smaller nationally than that originated by the Schengen *acquis*. To date, such a impact was mainly felt on the domestic legal systems, including at the constitutional level.

8.1. In Portugal the JHA *acquis* led to some amendments to the Constitution. The most significant amendments result from the Convention relating to extradition between Member States of 27 September 1996. Article 7 (1) of that Convention provides for the extradition of nationals of the requested Member State who stay in its territory. However, despite paragraph 2 of the same Article allowing any Member State to declare that it does not permit the extradition of its own nationals, a large political consensus in the Portuguese Parliament led to an amendment of Article 33 (1) of the Constitution, which expressly forbade, without exception, the extradition of Portuguese citizens from national territory. Thus, Article 33 (3) of the revised Constitution provides: "the extradition of Portuguese citizens shall only be permitted where reciprocal arrangements have been established by international treaty, in cases of terrorism and organised international crime and provided that the legal order of the requesting State enshrines guarantees of fair and just trial".

Certain statute laws were also amended, especially criminal legislation, to make it compatible with some Joint Actions adopted by the Council. However, some of the solutions agreed at EU level were already enshrined in Portuguese domestic law.

8.2. The major impact for the administrative organisation was the implementation of the Europol Convention. In accordance with the Convention, a

Europol national unit had to be set up with the following tasks, among others: (1) to supply Europol with the information and intelligence necessary to carry out its tasks; (2) to respond to Europol's requests for information, intelligence and advice; (3) to keep information and intelligence up to date; (4) to evaluate information and intelligence for the competent authorities and transmit this material to them; (5) to issue requests for advice, information, intelligence and analysis to Europol. The Portuguese national unit is part of the Criminal Police.

In addition, Portugal designated the National Commission for Data Protection as the national supervisory body provided for in Article 23 of the Europol Convention. The task of this body is to monitor independently, in accordance with national law, the permissibility of the input, retrieval and any communication to Europol of personal data by the Portuguese authorities and to examine whether this violates the rights of the data subject. The National Commission for Data Protection performs identical functions in relation to the N.SIS.

Central authorities and contact points also had to be set according to several Joint Actions, such as the one setting up the European judicial network, or the one on cooperation on law and order and security. In most cases no new administrative bodies had to be created but the jurisdiction of those already existing had to be widened.

IV. Perspectives

9. Due to the organisational and legal requirements imposed by the JHA *acquis*, and in particular by the Schengen *acquis*, there is no doubt that the Portuguese administration responsible for their implementation is no longer the same. Furthermore, the adaptation of national administrations to the integration dynamics of the JHA matters is a non-stopping process.

An interesting stage of this adaptation process will be reached when Europol begins to exercise its operational powers as laid down in Article 30 (2) of the TEU, which allows it to participate in joint teams and to ask to the competent authorities of the Member States to conduct and coordinate their investigations in specific cases.

Definitively, implementing the JHA *acquis* involves an ever closer interdependence among Member States. This is one of the reasons why JHA cooperation, and in particular its Schengen component, is not easily opened to new members, as practice has already shown.

The Portuguese-Spanish Relationship

Maria João Seabra

Overcoming rivalries among States and creating a basis for the peaceful settlement of disputes among countries is one of the main objectives of the process of European integration since its inception. In fact, today it is impossible to conceive the European Union without the bilateral relationship that stands at its core: the French-German tandem. The process of European integration has shown that it can serve the goals of mitigating – and eliminating – historical rivalries between countries and create among participating members a peaceful bilateral relationship. Although acting as a multilateral-supranational framework for the relations between Member States, integration is not a substitute for bilateral relations. Spaces still exist between States for issues that must be dealt strictly within bilateral dimensions. Participation in the integration process, therefore, has a profound impact on bilateral relations. On the one hand, it provides a different environment for the resolution of potential conflicts and divergences, since it tends to multilateralise the relationships, thus creating an additional framework for dispute settlement. On the other hand, common participation in integration processes obliges the partners to develop their bilateral relationship, especially when they are neighbouring countries, sharing concerns and needs.

The development of the Portuguese-Spanish relationship is a clear example of the impact of European integration in bilateral relations. In the Portuguese case the European option meant not only the return to Europe and to the European democratic countries family, but also the establishment of a much more healthier relationship with its only neighbouring country – Spain.

Portuguese-Spanish relations until the democratic transition

Much more than conflict, ignorance and suspicion are the key-words for the historical relations between Portugal and Spain. Portugal has been an independent country since the XII century and, since then, the two countries were only united for 60 years (1580-1640). Even then, Portugal did not become a part of the Kingdom of Spain.¹ There were, undeniably, several plans to *unify* the two countries throughout the centuries. Some Spanish or, more precisely, Castilian sectors never accepted the independence of Portugal, seeing it as an historical accident. If one takes into account all the small kingdoms absorbed by Castile, Portugal was, in fact, the only kingdom of the Iberian Peninsula able to preserve its independence. There were attempts to unify the two countries but they were not exclusively Spanish or military.² Intellectual theories existed in both countries which defended Iberian unity. The grounds for these kinds of projects were the closeness of the people and the idea that together they would have more power within Europe and the world at large than they would apart.

Despite all attempts to isolate the history of the two countries, their political, social and economic developments always paralleled one another. The distance between them is therefore more notable for its similarities than its differences. The XIX and the XX centuries as a whole are marked by a strong inter-action between the two countries, especially at the political level. The problem was that, for the most part, these processes were not chronologically simultaneous. The circulation of ideas such as liberalism, republicanism and even socialism was not symmetrical. The Portuguese republican movement was strongly influenced by the First Spanish Republic (1873) just as the Portuguese First Republic influenced the Spanish republicans forty years later. Aware of the circulation of ideas and of the impact that the changes in the political regime could have over each other, the governments of both countries supported the movements closest to them politically. Thus, the Spanish government supported the military incursions of the Portuguese monar-

¹ In 1580, for reasons of descent, the inheritor of the Portuguese crown was the King of Spain, Philip II. There were always, however, two kingdoms, due to the adoption of a formula that became known as the "dynastic union".

² At beginning of the present century, the Spanish King Alfonso XIII, worrying about the Republican regime in Portugal (Portugal became a Republic in 1910) and its impact on the Spanish Republicans, considered and even planned to intervene in Portugal militarily. Cf. Josep Sánchez Cervelló, *A Revolução Portuguesa e a Sua Influência na Transição Espanhola, 1961-1976* (Lisboa: Assírio & Alvim, 1993).

chists during the First Republic, just as Salazar supported Franco during the Spanish Civil War. Basically, both countries knew that it would be very difficult to maintain different types of political regimes simultaneously in the Peninsula. The strong contacts between intellectuals and politicians of both countries and the chances of having the government of one supporting the opposition in the other would always be considered as a threat by the powers-that-be. As Franco said "the border is a paper wall. If one of the countries goes on fire, the fire will cross to the other [side]."³

After the Spanish civil war the consolidation of the dictatorships in both countries, despite the political affinities between Franco and Salazar, increased the level of mutual ignorance and suspicion. The so-called *back to back* relation was the product of the nationalistic and isolationist policies adopted by both Portugal and Spain.

With the consolidation of the authoritarian regime in Spain, the relationship between the two countries was almost non-existent – the two countries ignored each other. In 1939, Salazar and Franco signed the so-called Iberian Pact to guarantee friendship and non-aggression. The wording of the agreement merely stated the existence of an enduring friendship between the two peoples and acquired no concrete expression. It represented the "institutionalization" of the *back-to-back* relation.

There were no references in the pact to economic relations. Politically, the two governments choose not to embark on the development of reciprocal trade and investment. It was only in 1970 that the question of economic cooperation was raised in a protocol attached to the Pact. This political decision explains why economic relations between Portugal and Spain were so weak until their accession to the European Community.

This relationship of ignorance was also supported by the different international options of both countries until the 70'. Spain pursued a much more isolationist policy than Portugal. The first major foreign policy difference was Portugal's participation in the First World War. Spain remained neutral. During the Second World War, the situation was completely different. The political regimes were different, as was the European and international political context. For the first time, a measure of cooperation between the two countries was absolutely necessary. As noted above, the Portuguese government supported General Fran-

³ Josep Sánchez Cervelló, *op. cit.*, p. 345.

co's troops during the Spanish Civil War. Salazar thought that democracy in Spain would have a direct impact on Portugal, weakening his power. Given that General Franco was a Germany ally, Portugal found itself in a very difficult position. Whether Salazar preferred Germany or not he had no intention of entering the war. On the other hand, the alliance with the United Kingdom was still in force. For Salazar, Spain's neutrality was fundamental. Portugal declared neutrality right from the start. In October 1942, the Spanish government followed suit, issuing a declaration of strict neutrality. The war was thus halted in the Pyrenees.

Portuguese neutrality, however, was not as strict as one might suppose. Both the British and the Americans requested the use of the Azores Islands which were considered strategic for the anti-submarine battle in the Atlantic. Portugal therefore adopted a "cooperative neutrality", from which it benefited greatly after the end of the War. "Cooperation" with the Allies and with the United States in particular, enabled Portugal to participate in the second Marshall Plan (the first being rejected by Salazar) and to become a founding member of NATO. Portugal's admission to these organisations was accepted for strictly strategic reasons. With the beginning of the Cold War, the Azores Islands acquired great strategic importance, becoming one of the most important American bases outside the United States. Thus, for strategic reasons the West accepted the participation of a dictatorship in NATO. Portugal was also a founding member of EFTA, allowing it to participate in the economic integration of Europe. Spain, on the other hand, remained isolated both by choice and by the constraints imposed by Western democracies. Spanish isolation began to diminish in the 1950s when the country gained increasingly acceptance and joined the ranks of some international organisations due to the strategic requirements of the Cold War. Thus, Spain was admitted to the United Nations on the 14th December 1955, together with Portugal⁴. The different nature of Spain's participation in the international community also had a strong impact on the economic sphere. Spain adopted an self-centered economic model, closing its frontiers to foreign goods, services and capital. This economic policy was not only conditioned by the fact of political international isolation but was also based on the conviction that the Spanish economy alone could satisfy all social needs and achieve development. Portugal on the other hand, had always pursued a much more

⁴ Portugal requested accession to the United Nations in 1946 but it was rejected. Spain didn't even try, since the S. Francisco Conference (1945) expressly rejected Spain's participation in the UN.

open economic policy, especially as far as trade is concerned. Participation in EFTA and the nature of colonial trade meant a more open market, whatever Salazar's preferences for protectionism. Ideologically, the two dictators were inward-looking and it was only the different conditions of international insertion which generated diverse policies.

The path to integration

On the 25th of April of 1974, a military coup d'état put an end to the authoritarian regime in Portugal. Franco died a year later. Once again, the two countries faced important changes more or less simultaneously. In the years that followed, both Portugal and Spain were confronted with a wide range of political, economic and social changes. Following the transition to democracy, it seemed that bilateral relations found a basis upon which to develop. This was not really the case, however. In 1977 the two countries signed a friendship and cooperation treaty to replace the Iberian Pact but ignorance and suspicion persisted.

Having initiated their political transitions to democracy, Portugal and Spain both requested full membership to the EEC in 1977. Portugal's and Spain's European option has a dual significance for both countries. As far as internal affairs are concerned, support from European institutions was decisive for the consolidation of democracy and the economic reform deemed necessary to achieve liberalisation and international integration. On the other hand, in terms of foreign affairs, European integration meant the end of both political and economic isolationism.

The EC decided that Portugal and Spain should join the Community at the same time, a decision which was not very well received by Portugal. On the one hand, participation in an "Iberian" enlargement could make the Portuguese request seem less important both in economic and political terms. On the other hand, the Spanish application was in fact much more complex, particularly as regards its agricultural sector, a face which threatened to delay Portugal's accession. The negotiation process was kept separate although parallel. This imposition was the stepping stone for the improvement of the bilateral relationship, which after accession would be further reinforced.

With the Brussels negotiations over, Madrid and Lisbon had to open a new round of negotiations in order to re-shape bilateral relations. The simultaneous accession allowed the two countries to negotiate bilateral relations directly. Proto-

col 3 of the Accession Treaty aimed towards the creation of a balance between the two economies during the transition period in the trade sphere. Given the difficulties of the relationship, however, this was the last dossier to be closed. This operation was difficult. Both countries were close to attaining the long desired aim of European membership but they still had to tackle their bilateral differences. Due to their different economic systems, there were many technical and economic difficulties. The two countries were finally forced to reach an agreement in the space of a week, just before the signature of the Accession Treaty.

The need to conciliate positions vis-à-vis EC demands and to adapt to the constant dialogue were vital for the establishment of an environment of mutual trust and for the institutionalisation of dialogue and cooperation between the two countries. In political terms moreover, simultaneous accession was almost unavoidable. The accession of only one of the candidates would de-stabilise the Iberian Peninsula and promote a further separation of the two countries.

The improvement of bilateral relations

The two countries became full members of EEC in the 1st of January 1986. With accession, for the first time, Portugal and Spain were members of the same international organisations and alliances.⁵ The only option left for both countries was to learn how to talk to one another. Common participation in the European Community, in NATO and later in WEU was incompatible with the total absence of dialogue. The first step towards improving bilateral relations took place in 1983, with the first Iberian Summit, which was institutionalised in 1986. For the first time, common concerns were strong enough to encourage both countries to overcome their differences, to improve relations and to try to find some common basis for action in the multilateral arena.

It was membership in the same integration process that 'forced' the improvement of Portuguese-Spanish relations. From the Portuguese point of view – the vision of a small country, with only one neighbour – the European Community meant the multilateralisation of the bilateral relationship. Stressing the European dimension of the relationship, Portugal adopted the strategy of "reaching Madrid through Brussels". Bilateral problems, therefore, were no more a strictly bilateral issue but one that could

be settled in a larger framework. From a Spanish point of view, Portugal remained a small neighbour but one with whom concerns and aspirations were shared in the EEC and therefore became a useful partner or even ally at the European level.

The Iberian summit, held once a year, provides a loose but permanent institutionalised framework. Nevertheless, taking into account the poor history of relations between the two countries, it is an important framework both for the resolution of bilateral disputes as well as a basis for the establishment of common strategies at the European level. The initial step towards improving bilateral relations took place in 1983, with the first Iberian Summit. The preparation for common accession was on the agenda. In 1986, the Iberian Summit was institutionalised. Since then, the Prime Ministers of the two countries have met on an annual basis.

The Iberian Summit is the only institutionalised framework for dialogue between the two countries. Beyond the rhetoric, for the first time there is a common concern to try to overcome divergences, to improve bilateral relations and to try to find some common basis for action in multilateral organisations exists. From the start, Iberian Summit agenda have concentrated on issues affecting bilateral relations for two basic, and essentially negative reasons. First, because of the need to overcome questions which are still problematic for bilateral relations and, secondly, because of the difficulties involved in achieving common positions as far as European affairs are concerned. Trade relations, investment, financial cooperation, transport and communications, energy, industrial cooperation, fisheries, agriculture, cross-border cooperation and the management of common water resources have been the most important issues on the agenda over the years.

Despite the clear improvements, the Iberian Summits should become more important for dialogue. On the one hand, from a Spanish point of view, it seems that Portugal is too small to be an important partner. On the other hand, Portugal is always to keen on emphasizing the negative aspects of the relation, thus devaluating common efforts, an attitude apparently characteristic of other small countries in similar situations.⁶

⁶ As noted by Harald von Riekhoff, when analysing the relationships between Germany and Austria on the one hand, and United States and Canada on the other, a common feature "is the tendency of the smaller partners to dwell more on the problematic aspects of the relationship than to stress the demonstrable benefits that accrue from it". Harald von Riekhoff, "Overview" in: Harald von Riekhoff, Hanspeter Neuhold (eds.) *Unequal Partners. – A comparative analysis at relations between Austria and the Federal Republic of Germany and Between Canada and the United States*, Boulder-Oxford, Westview Press, 1993.

⁵ Spain also joined NATO in 1982. The two countries joined WEU in 1988.

The impact of accession was immediately felt on trade, which grew more than 60% in 1986. In the following years, Spain became one of the most important trade partners of Portugal, being the main supplier for Portuguese imports and one of the destinies of Portuguese exports. Investment followed suit and Spain is an important destination of Portuguese foreign direct investment, and vice-versa. The growing economic interdependence, however, has another effect: sometimes, and specially in times of lower economic development, the voices on the «Spanish economic invasion» can still be heard in Portugal.⁷ This fear, which is more a political rhetoric than anything else, demonstrates that European integration, despite all its positive effects, does not mean that all the problems ceased to exist.

Another important aspect which has drastically improved is the communications network between the two countries. Taking advantage of the Community Support Frameworks, Portugal and Spain invested in infrastructures, including the ones connecting the two countries. The construction of international bridges on the river borders, the expansion of highways and the improvements on roads clearly helped to increase the economic and social contacts between the two countries.⁸

Benefits from European integration can be found also on the border region. The common border regions of Spain and Portugal are peripheral regions both within the European Community as well as in their respective countries. The Spanish-Portuguese border is not only the most under-developed but also the largest (1292 km) in the European Community. The political, economic, social and cultural contacts between people of both sides of the border has always been very intense – although informal. With common problems and needs, the development of links between the border regions would certainly enhance their bargaining power, both inside their countries and in relation with the European Union, creating better conditions for the social and economic development.

Taking advantage of Community programmes, like the Interreg, cross-border cooperation is presently a reality, although not yet as developed as it could be.⁹ The

⁷ This kind of rhetoric has been specially when there are prospects of Portuguese banks being bought by Spanish ones.

⁸ However, much is still to be done, namely the improvement of railway connections between Portugal and Spain.

⁹ One of the problems is the asymmetry at the levels of political decision-making, since Portugal is a very centralised State, and Spain has a decentralised system, allowing a greater margin of manoeuvre to the regional powers.

improvement of the relations between the two sides of the border is a reality to all the regions. Cross-border networks are developing along the border. One example of this cooperation is the relation between Galicia and the North of Portugal, with the existence of several programmes too stimulate and coordinate trans-frontier and inter-regional cooperation aiming at the joint development of both regions. Cooperation between the two regions also represents a response to cultural and linguistic affinities between both regions which creates the conditions for the constitution of a possibly very powerful Euro-region. One of the examples that highlights the dynamics of cross-border cooperation was the creation, in 1992, of the «Atlantic axis», a network of cities from Galicia and the Northern Portugal, aiming at the common development of both regions.

One of the major problems of the bilateral relationship has been the management of common water resources. The biggest Portuguese rivers are born in Spain and the attempts made by the Spanish government to change the water courses has provoked serious reactions in Portugal. The concerns were related with the quality of the water arriving in Portugal and also with the quantity, given the Portuguese plans to build dams.¹⁰ In 1998 an agreement was reached and the two countries signed a convention to regulate the use of the common rivers, although this is still an issue that requires intensive bilateral discussion.

Another clear example of the importance of accession to the EU for the bilateral relations was the institutionalisation of the Ibero-American Summits. This summit gathers the heads of state and government of all Latin American countries plus Portugal and Spain. Before 1986, this kind of initiative would have been unthinkable, due to the difficult relations between the two Iberian countries.

The European dimension of the relationship

The accession of Portugal and Spain had a clear impact on the Community's foreign relations, particularly as far as Latin America is concerned. The importance that both countries gave to Latin America, and their willingness to bolster the importance attached by the European Community to that region was clearly expressed in the Treaty of Accession, which included a «common statement of intent in relation to the furthering of relations with the countries of Latin America».¹¹

¹⁰ The most important project is the construction of the Alqueva dam, on the southern region of Alentejo.

¹¹ Cf. Álvaro Vasconcelos, «Portugal and European Political Cooperation», in *The International Spectator*, vol. xxvi, no. 2, April-June 1991, pp. 127-140.

Both countries have argued that their integration into the European Community favours increasing relations with other regions of the world. As stated by the Portuguese Minister for Foreign Affairs: "The special relations between Portugal and the African Portuguese speaking countries as well as with Brazil, other countries of Latin America, Africa and Asia will certainly represent an important contribution to the European Community"¹². Portuguese and Spanish relations with third countries and the accession of both countries to the European Community was seen as a two way street: on the one hand, their foreign relations increased European Community foreign relations potential; on the other hand, accession represented a window of opportunity for the countries of Latin America and Africa to reinforce their relations with Europe, namely by putting some economic and trade flesh onto the bones of the "special relationship" with Portugal and Spain.

Recent European Union initiatives towards Latin America and the Mediterranean are a clear example of the reinforcement of relations between the European Union and third countries. These initiatives were fully supported by Portugal and Spain. Latin America, the Mediterranean or even Africa are no longer a field of foreign relations exclusive to Portugal and Spain (or any other Member State, for that matter). This does not mean that Portugal and Spain are the only Member States with interests in these regions but rather that they have been able to incorporate their interests within the global framework of the European Union's interests.

The development of the bilateral relationship between Portugal and Spain did have some impact on the global European Union framework. The European policies of the two countries are quite different but nevertheless they have been able to develop some cooperation in European affairs, namely as far as social and economic cohesion is concerned. The similarities between the two countries are strong: they are southern European countries, with a lower level of economic development than their northern European partners, they are committed to European construction and they have privileged relations with other regions of the world. The construction of an open, democratic and socially committed Europe is a common objective.

¹² Pires de Miranda, "Portugal perante as Comunidades Europeias", in *Estratégia - Revista de Estudos Internacionais*, no. 1, 1986, p. 11.

Final remarks

The development of the bilateral relations between Portugal and Spain was and still is a clear consequence of common EU membership. For Portugal, the development of the relations with Spain was certainly one of the major consequences of European Union accession. Integration into the European Community meant the establishment of a new framework within which political and economic bilateral relations could evolve. Even if the European Union is evolving towards more supranationality and a growing sharing of sovereignty, there is still room for improved bilateral relations. It is a simultaneous process of integration into a larger area of relations and reinforcement of bilateral relations. Integration generate common interests between the two countries and it was a decisive contribution to the reinforcement of social contacts between the Portuguese and the Spaniards, therefore creating the necessary conditions for overcoming the weight of history and past political decisions in the Portuguese-Spanish relationship.

Brief Chronological Background

Portugal and the European Union

1962	18 May	Portugal officially submits its association application to the European Economic Community
1972	22 July	A free-trade agreement is signed between Portugal and the EEC
1973	1 January	The trade agreements concluded between Portugal and the EEC come into force
1977	28 March	Portugal submits its membership application to the European Communities
1978	17 October	Formal opening of accession negotiations with Portugal
1979	13 March	Entry into force of the EMS
1985	12 June	Signature of Portugal's act of accession to the European Communities
1986	1 January	Formal accession of Portugal to the European Communities
1988	14 November	Portugal joins the WEU
1990	1 July	Entry into force of the first stage of EMU
1991	25 June	Portugal signs the Schengen agreements
1992	1st semester	Portuguese Presidency of the European Council
	7 February	Signature of the Treaty on European Union
	6 April	The escudo enters the EMS's exchange rate mechanism
1993	1 November	The Treaty on European Union comes into force
1994	1 January	Entry into force of the second stage of EMU
1997	2 October	Signature of the Treaty of Amsterdam
1999	1 January	Entry into force of the third stage of EMU, with the participation of Portugal
	1 May	Entry into force of the Treaty of Amsterdam
2000	1st semester	Portuguese Presidency of the European Council

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Born in Lisbon in 1947. He received a degree in Economics from the Instituto Superior de Economia, where he worked as assistant in 1971-1975. He was Director of the Office of Studies and Planning of the Ministry for Industry and Energy between 1982 and 1985, Director of the European Integration Office in 1979-1985, and Chairman of the Comissão de Fiscalização da EDP between 1982 and 1985. From November 1985 to October 1995 he was Secretary of State for European Affairs. He is currently Chairman of Jazztel Portugal and a consultant at Salomon Smith Barney. He is also a member of the Strategic Orientation Council of the "Notre Europe" Association and a consultant at the Centre for European Policy Studies. He has been a non-executive member of the board of PARAREDE, SGPS, S.A., since 1998.

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