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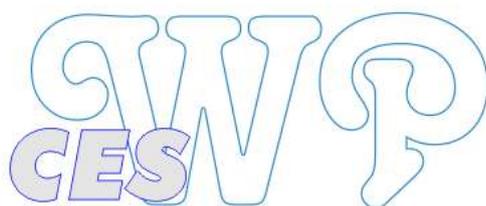
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# PERSPECTIVES ON IMPROVING COHESION POLICY SPENDING

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**Abstract:** *The aim of this paper is to reveal and summarize the latest visions and opinions published in articles and academic papers on the evaluation, institutional factors and the future of the European Cohesion Policy. The literature on the economic, territorial and social integration is vast and great emphasize has been put into the techniques, policies and instruments used in achieving these goals. The paper identifies some of the currents of opinion starting from cohesion evaluation methods and heading towards methods, techniques and policies for intervention without claiming to be an exhaustive endeavour. The article concludes with the summarising of the main opinions on the trends, directions and future of the European Cohesion Policy.*

**Keywords:** Cohesion Policy, Territorial Cohesion, Social Cohesion, Structural funds, Institutional performance.

**JEL Classification:** E02, E61, O52, R11, R58

## 1. INTRODUCTION

The European Cohesion Policy (CP) is a subject for ample debate in the context of uncertainty imposed by the current economic crisis and the expansion of the European Union (EU) towards the east. Issues such as growing disparities between member states and especially between regions of the EU with high risk of disintegration, slow and hesitant economic growth, concentration of wealth and prosperity, institutional inefficiency and growing dependence on structural funds are all topics that need urgent addressing. Thus, the expectations on the CP are high and the growing number of issues it faces makes it the key element for securing a future for Europe. Up to now the results delivered have not been all up to the goals set and there is growing pressure from the citizens as well as politicians to improve the CP in order to make it more efficient and cost- effective.

## 2. EVALUATING THE COHESION POLICY

For the evaluation of the level of cohesion, the trends followed and the impact of the CP there have been specific instruments elaborated especially within the European Commission (EC).

The analysis instruments used can be grouped into three main categories: simulation models, case studies and econometric evaluation (Edereveen et al., 2006). All of these instruments are based mainly on two macroeconomic indicators: GDP per capita and level of employment or its most undesired opposite, rate of unemployment. Only in depth analysis and case studies extend beyond these two main indicators and evaluate indices that relate more to quality of life (access to education and healthcare), quality of the environment, and level of development of transport and communication infrastructure. This is mainly because of the difficulties encountered in elaborating such analysis: inconsistent data, the lack of generally recognized indicators and lack of compatibility of statistical data between countries. The most extensive analysis can be found in the Cohesion Reports released every three years and in the Progress reports elaborated annually by the EC. There are studies and analysis outside the EC but these concentrate either on specific local/regional environments or analyse the main indicators on the broad European level.

Efforts of evaluating the CP are made even harder by the fact that it is very difficult to create the “without intervention scenario” and the policy has further added value resulting from the principles applied. The EC argues that the CP brings added value through the mobilization and concentration of public investment on most important fields (through the principle of co-financing), strategic and multi annual approach to investment, partnership building, promoting transparency and project management efficiency (Bachtler și Gorzelack. 2007). Because of the fact that these effects are difficult to measure they are not included in the CP evaluations.

Another important fact to take into account is that at the present moment the vast majority of evaluation takes place after or during the implementation periods of programmes and projects. Although these analyses are more accurate than ex-ante models the results may come late and compromise the ability to change and adjust policy objectives in time for the next programming period. Moreover, the conclusions brought by the CP implementation in the EU15 before 2004 are only partially applicable to the enlarged EU. Thus, there is growing demand for shifting the attention to impact analysis (extensively used in the US for policy building) which would provide decision makers with an insight into the beneficial effects and consequences of policy implementation (Morton, 2009). Although this shift is necessary the impact assessment studies tend to be biased and have high error rates. For example, the impact assessment of the CP spending

2007-2013 elaborated by the EC in 2010 is overly optimistic about policy results and especially about the investment in human capital.

### **3. FACTORS THAT INFLUENCE THE EFFICIENCY AND EFFECTIVENESS OF THE CP SPENDING**

As the CP is a redistributive instrument institutions are the core of the process. An elaborate system of institutions has been built to assure the correct spending of funds, according to the CP principles and objectives. This pyramid shaped system has been the subject of many debates and has been often blamed for the mismanaging of structural funds. The vast majority of criticism has been received by the national Management Authorities and the regional Intermediary Bodies, Mediterranean countries being cited as examples of how not to spend structural funds (SF).

An often cited study on this topic belongs to Ederveen et al. (2006). Inspired by an econometric model established to evaluate the impact of development aid the researcher set out to identify the factors that influence the results attained by the spending of structural funds in the EU15. The conclusions found were surprising: *only member states with solid institutions, low levels of corruption and high degree of openness benefit from the spending of structural funds* while states with high corruption and weak institutions will not only have reduced results but may even suffer real losses. Thus, states such as Greece, Italy, Spain and Portugal have little in terms of GDP growth to gain from an increase in structural funds spending.

This situation is further confirmed by the acute financial difficulties faced by three of these countries after the outbreak of the financial crisis.

More so, extended to candidate countries (at that moment) Romania was at the top of the list of states to suffer losses due to corruption.

The results are confirmed by further studies into the chronic under-development and lagging behind of certain regions. A low degree of institutional development, also referred to as institutional sclerosis, manifested through corruption, political clienteles, local elitism act as inhibitors of innovation and growth and pushes towards a vicious circle of low-development. This is even more obvious in Romania and Bulgaria where corruption levels are the highest in the EU, legislating activity is done at a furious pace, the justice system is seen as flawed and institutions involved in the spending of European Funds are politically influenced, slow and inefficient. Although institutional building is seen as the solution there is a lack of studies and models that would illustrate how this can be put into place (Farole et al., 2009). Methods, such as funding of administrative consolidation by the EC through structural funds, are costly and not effective,

absorption rates on this Operational Plan being at very low levels and results being even more modest.

The de facto situation of the cohesion trends within the EU is illustrated mainly by the studies and reports published by the EC such as the Cohesion Reports. These studies attribute significant contribution to the CP in the stimulation of growth in underdeveloped regions and highlight a reduction in disparities between member states, albeit at higher rates in the 1990's and lower rates up to 2006 (Bachtler și Gorzelack. 2007). After 2007 there is no clear trend, countries and regions being affected by the financial and economic crisis in various degrees depending on the local background.

At the national level the disparities have shrunk with a low but significant 2% annually but not the same can be said for the regional level where differences have been constantly growing.

Taking into consideration the distance from the technological barrier Farole et al. (2009) reveal that the western and northern European metropolis are the closest to the technological barrier and concentrate innovation while peripheral regions drift further away from technological barrier leading to divergence and enhancement of disparities. In the New Member States (NMS), where corruption, institutional development and openness are still problematic this trend is even stronger, leading to widening centre- periphery disparities. This is a clear case of the CP coming short on results on territorial and economic cohesion, both in an intra-state perspective as well as a global east-west perspective.

Thus we can conclude that the results of the econometric modelling described above are more than confirmed by the statistical data and corruption, weak institutions and a low degree of openness are major determinants of the efficiency and effectiveness of the CP and SF spending.

#### **4. PERSPECTIVES ON IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF THE CP**

Two main types of improvements can be distinguished:

1. Strategic adaptation and adjusting of priorities
2. Improving the effectiveness and efficiency of the SP spending process

Due to the extremely varied characteristics of European regions there is a need to elaborate instruments suited for specific local needs. Taking into account the economic geography of Europe and the distance to the technological barrier a number of intervention types (Farole et al., 2009):

- Promoting growth in the EU by means of supporting innovation in metropolitan areas
- Disseminating and spreading of innovation and technological progress

- Promoting innovation outside the North-Western European metropolis
- Reduction of underdevelopment by promoting technological transfer and institutional reform
- Approaching equity for regions with low potential but taking into account the costs for global growth

This is a very liberal perspective on the CP but has come forward in a moment when results seem to be lagging far behind the goals set and the costs bared. This perspective, although only partially embraced by the EC, seems to be one of the directions to follow in the next programming periods.

An other subject of intense debate is the optimum investment mix: the right amount of funds for infrastructure, business consolidation and human resources development. Priorities have changed and infrastructure is no longer the main are for investment as was the case for the Mediterranean states. Infrastructure consolidation continues to play a crucial role is promoting growth in the Central and Eastern European Countries, as the low level of development constitutes a large barrier in the face of development. But, in order to promote long term sustainable growth, there is a need for a coherent long term strategy: after infrastructure is no longer a growth prohibiting factor the attention should shift to human resource development, innovation and technological transfer (Bachtler și Gorzelack, 2007).

Although this perspective is shared by most experts, the priorities seem to be upside down in the case of EU's newest and poorest members, as infrastructure development funds (especially in the transport sector where it is most needed) have very low absorption rates (below 5%).

Thus, there is a consensus on the need to relieve the CP of its equalising role and direct it to promoting economic growth, social and territorial cohesion. This view is also embraced by the EC in Fifth Report on Economic, Social and Territorial Cohesion. Promoting creativity and innovation are seen as priorities for the CP in achieving sustainable and inclusive growth for the EU.

As far as improving the SF spending processes there are three are two priorities that come in mind: institutional building and elimination of corruption.

A priority generally agreed upon for the increase of efficiency and effectiveness of the CP is institutional consolidation: in the absence of a strong administrative system funds will be dispersed in directions that bring no contribution to attaining the goals set for the CP and also create elites, dependence and deflect resources to wrong directions (Bachtler și Gorzelack, 2007), (Ederveen et al., 2006). Also, weak institutions cause delays in absorption of funds and ultimately lead to low absorption rates with severe impact on the results attained in the regions affected.

Corruption is also on the front-line discussions prompted by the debt-crisis that shook the EU in the last two years. The effects corruption has on the implementation of European funding was most obvious in the Mediterranean states but with the expansion to the East the cases of miss usage of European funds have been dramatically rising. There is a growing concern for the proper use of European funding and implicitly elimination of corruption from the institutions supervising the implementation process and blocking attempts from beneficiaries who try misusing grants received.

All o these changes would bring greater efficiency and effectiveness to the CP but are hard to implement from Brussels alone. The vast majority of changes regarding institutions and corruption are at a national and regional level where the EC has more than limited attributes and depends on the willingness of national governments to implement reform. As this is not always present, it is going to be a lengthy process with gradual and slow change that is going to affect that the CP is able to achieve.

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# A FRAMEWORK ANALYSIS OF EUROPEAN LABOUR MARKET POLICIES

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**Abstract:** *The purpose of the paper is to analyse European labour market policies and their integrated guidelines, by highlighting various measures that need to be adopted in order to increase labour productivity, with positive effects on long-term economic development. The paper methodizes the main conditions complied by structural reforms in order to encourage labour employment and the policies that frame a more efficient unemployment insurance system crucial to increase security while encouraging the unemployed to look for a job and to accept a job offer, respectively on flexicurity policies. We found that employment rates are generally associated with large expenses on labour market policies and with an increased number of participants to programs developed within these types of policies. The degree of influence and strong dependence between outcome and labour market policies are illustrated in various ways and discussed within the paper.*

**Keywords:** flexicurity policies, employment protection, unemployment benefits, job search

**JEL Classification:** J08

## 1. INTRODUCTION

„Europe 2020”, the new strategy of European Union, that replaced the Lisbon Strategy, considers, for different policy areas, realistic targets, according to the present context and to the specific conditions of each member state, aiming at an inclusive, intelligent and sustainable economic growth (European Commission, 2010, p. 21). The intelligent growth is based on knowledge, innovation, education and a digital society, and the increase of efficiency in production and competitiveness are the main features that lie at the heart of sustainable growth. In order to reach an inclusive growth, the labour market should benefit from a wider employment participation that will lead to achieving professional abilities. An important role in ensuring a flexible labour

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market is played by the reduction of the degree of poverty that is affecting a larger part of the population within the European Union. The targets set for 2020 are very important in order to follow the progress registered through implementing various specific measures. Thus, in the case of both strategies, the main objective was to monitor and assess structural reforms in order to highlight the progress achieved in reaching the targets. The progress accounted by the European labour market depends largely on the specific labour market policies and measures adopted in order to decrease the high level of unemployment, thus improving economic growth within the European Union.

The European Union faces multiple challenges in assuring growth and jobs, especially concerning the framework for the co-ordination of employment policy at EU level. Thus, the main objective of the European Employment Strategy, launched within the Amsterdam Treaty (European Commission, 2010), is to reduce the persistence of unemployment and labour market segmentation. The strategy represents the main instrument for the coordination of employment policies within the European Union.

Taking into consideration all these aspects, *the main objective of the research* is the analysis of European labour market policies. *The research methodology* is based on using a set of specific labour market measures and programmes that underline the effects of labour market policies on European labour market performance. At the same time, the research is based on the analysis of the conditions necessary for each adopted measure in order to increase employment and on the analysis of policies required for a more efficient benefit system for the unemployed that will increase labour security, by encouraging them to search for a job and to accept a job offer (flexicurity policies).

## 2. LITERATURE REVIEW

Labour market policy measures refer to public labour market interventions where the main activity of participants is other than job-search related and where participation usually results in a change in labour market status. These measures cover primarily interventions that provide temporary support for groups that are disadvantaged in the labour market, such as unemployed, employed at risk and inactive persons (Arpaia and Mourre, 2005). Labour market policy measures are classified by type of action and cover the following categories: training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives.

Labour market policy supports refer to interventions that provide financial assistance, directly or indirectly, to individuals for labour market reasons or which compensate individuals for

disadvantage caused by labour market circumstance. These supports are classified by type of action and cover the following categories: out-of-work income maintenance and support (mostly unemployment benefits) and early retirement (Card, Kluve and Weber, 2009).

Boeri (2002) revealed the main conditions required for social and labour market policies in order to increase labour market performance, respectively *(i)* to reduce the level of poverty and inequalities concerning the level of income, *(ii)* to provide protection against uninsurable risks, and *(iii)* to generate an increase of rewards for labour market participation. At the same time, by making the connection to the main objectives of Lisbon Strategy, Boeri (2009) highlighted the fact that in order to become the most dynamic and competitive knowledge based economy in the world, the European Union should focus more on the third criteria, respectively on increasing the attractiveness for labour market participation.

The specific labour market policies are very different across EU Member States (Rovelli and Bruno, 2008). Thus, the protection against uninsurable risks is provided *(i)* through legal restrictions against dismissals, meaning employment protection legislation (EPL) and *(ii)* through providing unemployment benefits, along with other collective benefits (UB). The differences between the two categories is that employment protection legislation provides insurance for employed persons, while unemployment and social benefits offer support for persons in general, being financed through a tax on the income of employed persons. Thus, the insiders would rather prefer employment protection legislation, instead of unemployment benefits.

The main objectives of labour market policies (European Commission, 2008) refer to: *(i)* maintaining the existing jobs and employment, through flexible contractual arrangements and part-time work; *(ii)* supporting various persons largely affected by the crisis, through the social security system, according to flexicurity principles; *(iii)* investing in education in order to develop skills and abilities for labour market insertion; *(iv)* reducing labour market segmentation, especially through the protection of temporary and permanent workers.

Employment protection legislation, unemployment benefits and active labour market policies represent the essential elements for European labour market performance (Eichhorst and Konle-Seidl, 2005). On the one hand, they represent protection mechanisms against specific labour market risks that provide assurance concerning a certain level of income and job protection and, on the other hand, these mechanisms influence the capability of labour markets to adapt to economic changes mainly due to the fact that institutional characteristics affect the strategies of economic agents (Venn, 2009). The deficient capacity of labour market adjustment generates a high persistent level of unemployment. Thus, Member States need to adopt and implement a set of specific labour

market reforms and measures, in order to increase the adjustment capacity of European labour market.

### 3. INTEGRATED GUIDELINES FOR EUROPEAN LABOUR MARKET POLICIES

For the period after 2010, the guidelines of employment policies and strategies refer mainly to a few clearly identified themes, hence a four ‘pillar’ structure in which the first two are predominantly about substantive policy content, the third is about the mechanisms of policy implementation, while the fourth tackles wider expectations of the labour market. These pillars are (Begg, Erhel and Mortensen, 2010, p. 11): *(i) labour supply and human capital enhancement (pillar 1)* with the objective of increasing labour supply for specific groups through making work pay (unemployment and social benefits) as well as undertaking reforms of pension and contractual terms that give incentives to older workers, a life-cycle approach to work (including specific obstacles to labour supply like the lack of childcare or elderly care), enhancing human capital (initial and vocational training), and formulating objectives concerning immigration; *(ii) boosting demand for labour (pillar 2)* that refers to job-sharing and other means of spreading the available demand for labour, including the incentives for over-time; regional balance in employment creation, job creation in the social economy and other forms of labour demand; *(iii) matching of demand and supply, adaptability and institutions (pillar 3)*: this would include proposals on institutions and labour market rules, including the functioning of public employment services; *(iv) quality and sustainability of work (pillar 4)*: bring together various aims concerning quality and sustainability of work, including equality of opportunity. The focus of this pillar is on working conditions, such as health and safety at work, but also the promotion of innovative work organisation, fighting against low-wage traps and under-employment and highlighting the life-course approach to work, including work and family/civil society reconciliation.

The *new employment guidelines* defined by the European Commission since October 2010 are: *(i)* increasing labour market participation of women and men, reducing structural unemployment and promoting job quality; *(ii)* developing a skilled workforce responding to labour market needs and promoting lifelong learning; *(iii)* improving the quality and performance of education and training systems at all levels and increasing participation in tertiary or equivalent education and *(iv)* promoting social inclusion and combating poverty.

Several policy areas are analysed in order to assess the labour market performance within the European Union, defined in the context of Europe 2020 Strategy (Arpaia and Mourre, 2005): *(i)* job

protection and labour market segmentation/dualisation; (ii) policies increasing working time; (iii) labour market mismatch and labour mobility policy; (iv) specific labour supply measures for women and older workers; (v) active labour market policies (ALMPs); (vi) make-work pay policies.

**Table 1 Specific labour market policies and integrated guidelines defined by the European Union**

| Category  | Integrated guidelines (IG)   |
|---|--|
| Job protection and labour market segmentation/dualisation   | IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.<br>IG 5 To promote greater coherence between macroeconomic, structural and employment policies.<br>IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.   |
| Policy increasing working time                              | IG 18 Promote a lifecycle approach to work.<br>IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.  |
| Labour market mismatch and labour mobility                  | IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.<br>IG 20 Improve matching of labour market needs.<br>IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.   |
| Specific labour supply measures for women and older workers | IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.<br>IG 18 Promote a lifecycle approach to work.<br>IG 19 Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive.<br>IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners. |
| Active labour market policies (ALMPs)                       | IG 20 Improve matching of labour market needs.<br>IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.<br>IG 5 To promote greater coherence between macroeconomic, structural and employment policies.   |
| Making work-pay: interplay of tax and benefit system        | IG 19 Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive.<br>IG 22 Ensure employment-friendly labour cost developments and wage setting mechanisms.<br>IG 5 To promote greater coherence between macroeconomic, structural and employment policies.  |

Source: European Commission (2008), „The LIME assessment framework (LAF)”, *European Economy*, Occasional Papers no. 41, October 2008.

*Job protection and labour market segmentation/dualisation* comprises two dimensions. Job protection, also called employment protection legislation refers to regulatory provisions relating to “hiring and firing”, particularly those governing unfair dismissals, termination of employment for

economic reasons, severance payments, minimum notice periods, administrative authorization for dismissals and prior consultations with trade union and/or labour administration representatives. Relaxing job protection will raise flexibility for firms to recruit and dismiss. On the other hand, this dimension is to be considered in close relation to the need of avoiding increasing dualisation of the labour market, which reduces labour market security, as well as firms' incentives to supply training and could lead to cost pressure.

*Policies increasing working time* cover a number of policies: (i) a first strand of policy is of legal nature - relevant policy measures may emerge either from legislative processes or as the outcome of the bargaining process between social partners (such as legal ceilings and overtime rate, daily working time or public holidays); (ii) a second series of measure concerns incentives to work longer or to work overtime; (iii) a third aspects concerns the work conditions which could provides further incentives to work longer hours (e.g. the rate of serious or fatal accident at work).

*Labour market mismatch and labour mobility policy* refers to a wide range of regulatory provisions that aim at stimulating labour movement across regions and across occupational sectors, as well as to improve the conditions for workers to take up a job which is distant from the main centre of interest or in sectors other than sector of former employment. Labour market mismatch and labour mobility policies include a disparate set of measures ranging from those providing economic incentives for housing, to the recognition of acquired qualifications and skills or improving the portability of supplementary pension rights.

Specific *labour supply measures for women and older workers* aim at encouraging women to enter the labour market and remain economically active, as well as encouraging older workers to remain in employment and thus economically active. These measures involve old-age pension systems, early retirement schemes, policy aiming at promoting a gradual withdrawal from the labour market, while combining working and private lives.

*Active labour market policies* (ALMPs) are public spending aiming at encouraging the unemployed to take up a job or remain in employment. The five main traditional categories of active labour market policies are: (i) public employment services: placement, counselling and vocational guidance, job-search courses, administration of unemployment benefits, all other administration costs of labour market agencies including running labour market programmes; (ii) labour market training: training for unemployed adults and those at risk, training for employed adults; (iii) youth measures: special programmes concerning measures for unemployed and disadvantaged youth, support of apprenticeship and related forms of general youth training; (iv) targeted measures to promote or provide employment for the unemployed and other priority groups

(but not youth and the disabled); (v) measures for the disabled: special programmes concerning vocational rehabilitation and work for the disabled.

The objective of the *make-work pay policies* is to attract more people in the labour market. The main priority of these policies is to reduce unemployment benefit dependency and provide effective incentives to take up jobs and remain in work by making work an economically attractive and rewarding option relative to welfare.

#### 4. CONCLUSION

The European labour market is influenced by targeted employment and labour policies addressing the impact of the crisis, as well as by structural changes that may be caused by the economic crisis. Thus, it is essential to take into consideration different labour market policies that aim at lowering the impact of crisis on workers and reduces the gap between economic growth and labour market improvements. Labour market policies should play a complementary role in response to economic crisis, through maintaining labour demand by creating new jobs and maintaining the existing ones, improving the possibilities of employment for persons seeking for a job, improving compatibility between labour demand and supply and by giving support to those who lose their jobs. Overall, the lack of a monitoring and labour market evaluation policy systems generates difficulties in establishing adequate labour market measures in time of economic crisis. Thus, there are several priorities which can be the basis for revised employment guidelines concerning more jobs, which is explained as the creation of new jobs and the mobilisation of a larger working population by increasing the participation and employment rates as well as managing economic migration, by combining aspects of labour demand and supply, also concerning better jobs from two perspectives of, first, higher quality that raises productivity and, second, improved working conditions that also contribute to productivity while improving pay and job satisfaction.

In economic terms, the employment policy has to mediate between the new long-run influences and the shorter-term consequences of the crisis. There is an analytic justification for the focus on employability motivated by the need to tackle high and persistent long-term unemployment, but that in the coming decade, a focus on activation, segmentation and labour market flexicurity. Yet in recovery from crisis, priority manifestly has to be given to policies and measures aimed at boosting labour demand. At the same time, the importance given to human resources and labour demand is motivated by the accent on creating new jobs within the framework

of Lisbon and Europe 2020 strategies, but also by the challenges ageing and of intensifying global competition in the knowledge economy.

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# NONRENEWABLE RESOURCES – THE GATEWAY TOWARDS A SOLAR ERA

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**Abstract:** *The end of the 20th century was preserving and handing down the concept of economic growth as the main goal of most of the governments and economic advisers, even if the world was integrating in a mondialist system. This economic model lasted for a long time, but it will not survive the 21<sup>st</sup> century, when the development of nations will depend increasingly on the security of natural resources. Progress now depends on a much more profound economic transformation than it has been possible so far, especially since countries around the world rely on the availability of renewable and nonrenewable resources to meet their rising needs and expectations. The transition from the traditional economic paradigm to that based on the sustainable or ecological economy takes years of changes at all levels – from theory to practice. The aim of this paper is to introduce the progressive visions of some outstanding specialists who have looked for solutions to make a sustainable economy possible. The transition to a world sustainable economy implies admitting the fact that human economy is just a part of the global ecosystem which encompasses it.*

**Key words:** nonrenewable resources, renewable resources, solar technologies, sustainable development.

**JEL classification:** Q01, Q32, Q42.

## 1. OVERVIEW OF THE CURRENT STATE OF NONRENEWABLE RESOURCES

Natural resources have always underlain the development of society, but for a long time economists understood and assimilated their importance only from the perspective of gaining. The ecological crisis that mankind is experiencing at the moment, heightened by the outbreak of the energy and raw materials crisis in the '70s, has led to an increase in the economists' level of awareness regarding the danger of irrationally exploiting natural resources. Thus, at present, the

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depletion of resources leaves its mark on the activities in every field, their rational use converting into a unanimous aspiration.

Along the years people started to talk more and more about *eco-development* as being a complex relationship between economic development and the environment, and this has happened because the society became aware of the fact that the irrational exploitation of nature and its indiscriminate use can have, besides beneficial results on welfare in general, unfavourable consequences on the ecological equilibrium.

However, the vast majority of economists (neoclassicals, marxists, keynesians or post-keynesians) have ignored the ecological aspect, the environmental impact. They have often been inclined to dissociate economy from the ecological framework, to which it is fundamentally, interdependently related, and most of their basic concepts were no longer appropriate for describing economic activities.

The situation is worsened by the fact that most economists avoid to explicitly admit the value system their models are based on, and tacitly accept the set of strongly unbalanced values which dominate human culture and are embodied in its social institutions. These values have led to an excessive focus on technology, on huge consumption and the accelerated exploitation of natural resources, all this being motivated by the persistent obsession regarding growth. Undifferentiated economic, technological and institutional growth is still regarded by most economists as the sign of a “sound” economy, although it now causes ecological disasters, widely spread corporate crime, social disintegration and a higher probability of nuclear war. (Capra, p.505)

What is paradoxical is that economists seem to not be able to adopt a dynamic view, despite their obsession regarding growth. Their tendency is to arbitrarily freeze the economy in its current institutional structure, instead of seeing it as a constantly changing and evolving system, dependent on the alteration of the ecological and social systems which encompass it.

## 2. POSSIBLE SOLUTIONS

In the context described above, the adequate presentation of economy in its social and ecological aspects requires that the basic concepts and the variables of economic theories are correlated with the ones used to describe the social and ecological systems. This involves a multidisciplinary approach to the economic system, developed by numerous scientists over time.

Outstanding people, such as Nicholas Georgescu Roegen, Fridjof Capra and Lester R. Brown – whose vision finds perfect fulfilment nowadays – have written about restoring balance and flexibility in economy and about social institutions, which require a thorough change of values.

According to them, growth has to be rational and maintain a dynamic balance between growth and decline, so that the system as a whole remains flexible and open to change.

## 2.1 Nicholas Georgescu-Roegen

Along time, Nicholas Georgescu-Roegen has proved to be the first professional economist of Romanian origin, who addressed the issue of the human species' economy in a global ecological context in a thorough manner (he was the one who studied the determining role of entropy on economic life). In his fundamental paper – “*The Entropy Law and the Economic Process*”, he presents the criticism of the classical and neoclassical “standard” economic theory, which is blamed for its newtonian mechanism, that has developed great and real possibilities of autoregeneration. According to it, all we do is pursue a global economy whose functioning is based upon the second law of thermodynamics, which states that nothing is lost, nothing is created, everything is transformed. Starting from this principle, standard economists have presented the economic activity as the movement of a pendulum between supply and demand, where any disturbance can be overcome by a “correct price”, which can only be the price of the free market. However, Roegen draws attention to the fact that this entire demonstration was conducted in a purely ideatic, abstract environment, completely detached from the physical one, the possibility of natural resource depletion not representing a matter of interest standard economists.

Being unsatisfied with the solutions offered either by the classical theory, or, even more so, by the neoclassical one, Roegen tried to impose his own paradigm, asserting that “the economic process is, by its very nature, entropic and that the entropy law<sup>1</sup> governs both this process and its evolution”. According to the outstanding economist, once the resources of the globe have been exhausted, they become impossible to use in the future. In the classical economic theory, the needs of the future generations are not taken into consideration at all. The same applies to business, where nobody speaks about the ones who will live on this planet, those people who start their ever poorer living regarding energy supply. The only solution to protect future generations against the present-day loss of energy is our own re-training – *towards the responsibility based on care and love for the human being – our future associate. Love for your own species is the key to solving tomorrow's crisis*, N. Georgescu-Roegen prophetically writes. The present generation's monopoly on the future

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<sup>1</sup> Entropy represents the constant alteration of energy in a system of the universe. From an economic point of view, entropy expresses the process of alteration of material and energy resources, a process which takes place both at the level of the economic life, determined by people's actions and control, and outside it. The entropy of any system characterises its degree of disorder. (Bran, P., *Economica valorii*, Editura ASE, București, 2002, p. 45).

generation will be substantially diminished within the framework of an economy rightly called *bioeconomy*.

Taking these reality into account, Georgescu-Roegen conceptualises a few elements, which he includes in a *Minimal Bioeconomic Programme*, capable of providing a balanced and long-lasting standard of living for humankind, such as: avoiding the loss of any kind of energy or mass; freeing the today's man from his morbid tendencies to produce and consume all kinds of new products; the necessity for the producers of goods (commodities) to focus on product durability, on their ease of use and particularly on their maintenance and repair (Drăgan and Demetrescu, 1994).

However, N. Georgescu-Roegen did not make any illusions that his programme could be easily adopted, that his recommendations, expressed almost as aphorisms, could be followed, at least not in a foreseeable future, because, the great thinker concluded, maybe man's destiny is that of a short, yet intense, exciting and extravagant instead of a long, passive existence, lacking in events. Some live long, others live fast, here is a formula which can function just as well for people as for species. But even so, Roegen's opinion is that man does not have the right to act to the detriment of the other living species which populate the Earth.

## 2.2 Fridjof Capra

Another visionary of our times, Fridjof Capra – physicist and system theoretician, brings some additional valuable ideas to the formerly described perspective, and in one of his books “*The Turning Point: Science, Society and the Rising Culture*” he suggests a *systemic approach to economy*, in order to bring order into this conceptual chaos, providing the necessary environmental perspective. From a systemic viewpoint, economy is a living system, made up of human beings, social organisms (institutions) and the ecosystems which surround them, which are in continuous interdependence.

According to the systemic vision, the economy, regarded as a living system, is healthy if it is in a state of dynamic equilibrium, characterized by continuous fluctuations of its variables. To achieve and maintain such a healthy economic system, it is crucial to preserve the ecological flexibility of the natural environment and to create the social flexibility needed to adapt to environmental changes.

The fulfillment of this goal does not mean a return to the past, but the development of new forms of technology and social organization, because many of the conventional, resource-intensive, highly centralised technologies are now outdated.

In the new context, attention falls on alternative energies, many of which are already in place. Their advantages consist in the fact that they can be used on a small scale, in a decentralized manner, they can respond to local conditions and can be designed so as to increase the degree of autonomy, providing a maximum degree of flexibility. Thus, they are often called “soft technologies”, because their environmental impact is much more reduced by the use of renewable resources and the constant recycling of materials. Examples of such soft technologies are solar collectors, wind generators and organic agriculture (Capra, 2004, p. 508).

Moving from "hard" technologies to the "soft" ones is needed in areas related to energy production. The deepest roots of the current energy crisis can be found in irrational production and consumption patterns that have become characteristic for our society. In order to solve the crisis, there is no need of more energy, as it would enhance the existing problems, but of deep changes regarding values, attitudes and lifestyles. Nevertheless, while this long-term goal is being pursued, we must as well replace the use of nonrenewable resources for energy production with renewable resources and make the transition from “hard” to “soft” technologies, so as to achieve an ecological balance.

Currently, most energy policies of the industrialised countries reflect the intensive use of natural resources, energy being produced from nonrenewable resources - oil, natural gas, coal and uranium – through centralized, rigidly programmed technologies, which are wasteful and unhealthy. However, nuclear energy is by far the most dangerous element of using “hard” natural resources.

A healthy way of solving the energy crisis would be a "softer" approach of energy production, which would involve the following main aspects (Capra, 2004, p.510): energy conservation through more efficient consumption, intelligent use of nonrenewable resources as "bridge fuels" during the transition period and the rapid development of “soft” technologies for energy production out of renewable sources. Such a threefold approach would not only be favourable to the environment and ecologically balanced, but it would also be the cheapest and the most efficient energy policy. A Harvard Business School study showed that increasing efficiency and investments in new technologies represent the most economical sources of energy, providing a greater number of work places (Capra, 1979 in Stobaugh et al., 2004).

The reality is that on the long term, we need a renewable energy source, economically efficient and environmentally benign. *Solar energy* is the only type of energy that meets these criteria. The sun has been the main source of energy for our planet for billions of years, and life, in its countless forms, has resourcefully adapted to solar energy throughout the planetary evolution. All the energy we use, with the exception of nuclear power, represents a stored form of solar energy. (Capra, 2004, p.513).

One of the main arguments against solar energy is that it would not be economically competitive compared to conventional energy sources, but this is not true. Some forms of solar energy are already competitive; others can become so in a few years' time. "Many people still suppose that solar energy is something related to the future and wait for a technological discovery. This supposition represents an error, *as active and passive solar heating is present here and now as an alternative to the conventional sources of energy*", shows the Harvard Business School study (Capra, 1979 in Stobaugh et al., 2004).

Other technologies with tremendous potential are the photovoltaic and wind generators, which would bring about fundamental structural changes for the utilities industry. Today the major obstacle to rapid development of new technologies is represented by the utilities companies that are unwilling to give up their monopoly in the field of electricity production.

F. Capra states that the way towards a solar future is open and all that is necessary is accurate public information about the solar energy potential, together with appropriate social and economic policies, so as to facilitate the transition to the solar era. At the same time, the renowned theoretician offers the example of Barry Commoner, a man who designed a detailed scenario for replacing most of the unrenewable energy sources with solar energy on a 50-year timespan scale. (Capra, 1979 in Commoner, 2004). His proposal neither entails major technological innovations, nor does it depend on drastic measures of energy preservation. The key to the project is the *role of natural gas* as main bridge fuel. The underlying idea is the increase of production, the extension of the current natural gas distribution grid and, afterwards, the gradual replacing of natural gas with methane from solar sources. In order to do so, methane-generating devices have to be built wherever there is a sufficient amount of biomass available.

According to Commoner's scheme, which, of course, is only one of the numerous possible plans, the initial step of the transition would consist in putting up gas generators wherever it is possible and building more extensive gas distribution grids for their supply. At the same time, active and passive solar heating systems would expand and greater and greater amounts of solar methane made out of biomass would be added to natural gas in the distribution grid. The use of photovoltaic cells and wind generators would significantly increase in a few years' time and the total production of solar energy would gradually increase until reaching approximately 20% of the total energy budget in 25 years' time. At that stage, in the middle of the transition period, both solar energy and natural gas put together would make up a little bit more than half of the total energy budget of a state, which would make it possible to completely eliminate the reliance on nuclear energy. In the second half of the transition, oil and coal needs would progressively decrease down to zero and the natural gas production would fall to around half of the present-day

amount. At that moment, the system would be 90% solar energy based. In the following years, the 10% natural gas share could be cut out, but it would be important to maintain this source of energy as a backup, in order to compensate for the irregularities brought about by climate fluctuations (Capra, 2004, p. 520).

The main obstacles against the solar transition are not technical, but political. The transition from nonrenewable to renewable resources forces oil companies to give up their dominant role in the world economy and fundamentally alter their activities. One solution would be for most of the oil companies to invest in innovative businesses, as many of them have already started. Certainly, problems will arise in other industries, as solar transition generates conflicts between social and private interests. In F. Capra's view, the soft energy path would obviously serve the interest of all energy users, but a reasonable transition to the solar era would only be possible if we are able, as a society, to put long-term social advantages above short-term personal gains.

### **2.3. Lester R. Brown**

One of the best-known scientists in the world - Lester R. Brown - is the founder of the *Worldwatch Institute*, and founder and president of the *Earth Policy Institute*. *The Telegraph* of Calcutta refers to him as "the guru of the environmental movement", and the *Washington Post* called him "one of the world's most influential thinkers."

With the help of the institute set up by him, he published yearly reports called: *Global Issues of Humankind – State of the World*, translated into 35 languages and released at the same time in different countries around the world. Through papers such as the one published in 2003 "*Plan B, Rescuing a Planet under Stress and a Civilization in Trouble*", considered by many specialists to be of the same magnitude as the first Report to the Club of Rome in 1974, he warned the global community about the major dangers humankind and nature are facing. In order to avoid the destruction of the planet, Lester Brown comes up with the following proposals: setting up a budget for the recovery of the planet through the UNO and its financial programs; using current techniques for protecting and restoring the environment; promoting the recycling of raw materials, a process which takes place naturally in the environment; a short stage for the transition from the use of fossil fuels (oil, natural gas, coal) to the use of renewable resources (wind, biomass, hydrogen, photovoltaic devices, tides).

Thus, setting up a new global economic model has become the great challenge of the century, which has generated answers such as Brown's B Plans (taking into account the fact that the so-

called Plan A – which has been implemented so far, has been leading the world towards economic decline and, eventually, towards collapse).

Finally, a middle path which realistically integrates the requirements of a global economic model and the ecological aspirations of the future generations is represented by the “society of moderation” project. The essential problem is finding a balance between the existing natural capacities and the needs (present and future) of the society. The human ecological footprint has become so heavy that the planet is seriously affected. The rapacious character of the “consumer society” is strongly denounced.

Both the exaggerated individual consumption model and its collective expression and the western model which the societies of the emerging countries have drawn the conclusion they should follow in order to develop are thus challenged. Extremes can never constitute a viable solution. We can neither preach for a utopian economic de-growth, nor continue on the same path, believing that adaptation will occur owing to the force of circumstances. On the contrary, tools must be identified and promoted in order to allow a reduction in fossil energy consumption, in the material and resource flows. We do not need to become a society of privation, but a society of moderation, and in L. Brown’s opinion, we must do it quickly, as the world of tomorrow, whether we like it or not, will be radically different from that of today.

### 3. CONCLUSIONS

People have long lived under the impression that progress is linear, that every day will bring about a step forward. The only thing is that the current “market” logic fatally leads to the opposite direction. However, a new logic can progressively be substituted to it. But, in order for that to be possible, the foundations of the present society must be amended and the “philosophical stone”, which would allow the conciliation between the maintenance of economic and social growth and the good management of the environmental issues, must be found.

In an era of extremes, the middle path seems to be the most appropriate, as well as the most feasible in approaching such an issue. Thus, the rational use of natural resources is the main mean of achieving an efficient increase in production, which can be accomplished by saving the factors of production in the process of extracting and processing them. Thus, *technical and scientific progress (the informational resource) and the use of human potential (the only abundant resource)* become the main tools for solving the contradictions between the continuous increase of social needs and the limited possibilities that the environment provides.

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# THE LISBON TREATY: A SINUOUS RATIFICATION

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**Abstract:** *This article deals with the intricate ratification process of the Lisbon Treaty, while focusing on the thorny issues of Euroscepticism and democratic deficit within the European Union in the current institutional context. The study is based on a wide research endeavour, whose purpose has been to encompass multiple points of view on the future of the European Union, seen from the perspective of the Treaty of Lisbon and its reception in all member states. These viewpoints include the ones found in the speciality literature, as well as in the press that published representative articles during the debates on the ratification of the Lisbon Treaty. Useful attempts are made in order to classify the member states of the EU according to various relevant criteria in their attitude germane to the ratification of the Treaty, so as to outline new waves of Euroscepticism, opt-outs and criticism. Apart from an institutional and a legal perspective, this study presents a large number of political, national and even cultural aspects encountered in attitudes and courses of action pertaining to the future of European Construction, seen through the eyes of the reform process carried out by the latest EU major legal document.*

**Keywords:** Lisbon Treaty, reform, Euroscepticism, democratic deficit, ratification

**JEL Classification:** F53

## 1. EUROSCEPTICISM AND DEMOCRATIC DEFICIT: FACTORS IN THE RATIFICATION PROCESS

Given the traumatizing experience of the failed ratification of a major European reform document back in 2005, the European Union's political body could certainly not afford another failure of this kind, after the intricate reflection period that led to the drafting of the Lisbon Treaty, a compromise meant to overcome the dysfunctional institutional framework after the 2004 enlargement (de Poncins, 2008, p. 192). At the moment of signing the Treaty, on the 18<sup>th</sup> of

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December 2007, the expected date for it to come into force was the 1<sup>st</sup> of January 2009, which appeared consistent with the average duration of this process for any major Treaty.

Nevertheless, the ratification course would not go as smoothly as expected, as one member state was required by its internal regulations to hold a referendum on the matter, namely Ireland, which eventually led to the rejection of the document, in a déjà vu of what had happened in the summer of 2005. This paper attempts to argue that Euroscepticism played a significant role in the sinuous ratification process, as did the issue of the democratic deficit within the EU. The first of the two terms, Euroscepticism, refers to the opposition expressed by certain groups of people towards the process of European integration and, in particular, towards the deepening of this process. As in the case of any other supranational construction process, the rise of an opposing current is normal and, to a certain extent, it is the expression of a democratic divergence of opinions. However, the political forces that drive the Eurosceptical trend are usually counterproductive and often trigger memories of past totalitarianism, if one refers to extreme right-wing political groups, which take the national criterion all the way to the top of their argumentation. A Eurosceptical attitude is often attached to a nationalist sentiment, as in the case of Czech President Vaclav Klaus, who appealed to historic arguments and national traumas from the Second World War to block the signing of the Treaty of Lisbon, albeit a contrary opinion from the part of his government and people.

One trustworthy instrument to assess the fluctuations in the level of Euroscepticism across Europe is without a doubt the Eurobarometer. This periodical survey should be used as an alarm signal for identifying the situation of the crisis of values within the European Union, in the eyes of its citizens, so as to come up with viable solutions to crucial problems such as legitimacy and representativeness (Păun, 2007). Having said this, it has to be pointed out that the latest available figures, dating back to 2009, are less than worrying for the European Union, with half of its citizens sustaining their respective countries' membership, although this percentage is far from being uniformly spread amongst member states. As a general trend, the original six countries that founded the Community still benefit from steady support for the integration process, with peak values recorded in Luxembourg and the Netherlands, while other experienced members, such as Spain or the Republic of Ireland, are equally well positioned with regard to European construction (*Standard Eurobarometer 71. Table of Results, 2009*, p.91-93).

On the other hand, Eurosceptical political parties and virulent nationalist discourses have maintained a dangerously low level of support for EU membership in the ever-sceptical United Kingdom, a champion of opposition and opt-outs in the integration course, whose newly-elected Conservative-Liberal-Democratic Government shows less European perspective than its Labour predecessor. With less than a third of its population referring to EU membership as a positive factor,

Britain has been and remains a subject worthy of analysis in any discussion on Euroscepticism and its impact. This being said, the Eurobarometer shows similar worrying tendencies in a part of Europe that longed for European integration until just a while ago (and part of it still does), namely Central and Eastern-Europe. With the rise of right-wing political forces and an ever increasing economic crisis, massive social protests and civic unrest, countries such as Hungary and Latvia are undergoing a decrease in the support for European integration, felt at the level of their citizens and in the political discourse. Partly due to the tendency of nationalist politicians to blame everything that goes wrong within a country on the so-called technocratic process in Brussels, the Eurosceptical attitude in this part of Europe is increasing slowly but surely, with potentially dangerous consequences in the near future. The question asked by the Eurobarometer which led to these conclusions is whether citizens feel their country has benefitted from European integration, to which only about half of British, Hungarian or Latvian citizens answered affirmatively (*Standard Eurobarometer 71. Table of Results*, 2009, p. 95-96). To expand the area, it has to be said that, while Romanians are still favourable to European Union membership, Bulgarians tend to align their opinions to those of the Eurosceptical nations mentioned above and blame the Community for the poor economic situation of the country, fuelled by a dangerously active organized crime.

Another useful Eurobarometer instrument used to monitor the sceptical feeling across Europe towards European integration is the trust of European citizens in the common institutions, especially the Parliament, Commission and Central Bank. As expected, the first of the three benefits from more consistent support, with just about half of European citizens expressing their confidence in the parliamentary assembly, chiefly in Central and East-European states. The interpretation of this result can be regarded as ambivalent, as in this part of the continent, the population tends to lose confidence in national legislative bodies, which fall victims of more and more allegations of corruption and inefficiency, fuelled by a bloodthirsty media. From this perspective, the support for the European Parliament should be considered encouraging, as these citizens may well find a suitable alternative for popular representation in the EP, an institution that has been struggling since its creation to gain more credibility and legitimacy on a supranational scale. On the other hand, the British, who take great pride in their Parliament and democracy, tend to exhibit the lowest support for the European Parliament of all member states, with just a little over one Briton in five having confidence in it. This attitude partly springs from the allegiance of the British nation to its traditional institutions, relying on an unequaled political tradition in Europe, which, if combined with the nature of the British conservative spirit, makes it hard for this nation to share their fidelity with much more recently created institutions - not to mention supranational ones.

As expected, the level of trust in the executive body of the European Union, namely the Commission, is slightly lower than the one in the Parliament (*Standard Eurobarometer 71. Table of Results*, 2009, p. 110-112), an attitude that is consistent with the political tradition across democratic Europe, which makes executive institutions more prone to attract criticism than legislative ones, whose visibility is less prominent in the case of measures taken to directly affect the population (although in reality, it should be the other way around) (Doutriaux and Lequesne, Paris, 2008, p.62-63). Furthermore, the confidence expressed by Europeans in the Central Bank of Frankfurt is equally inferior to that in the European Parliament, especially in a moment of doubt for the future of the single European currency, the euro (Doutriaux and Lequesne, Paris, 2008, p. 114-117). Part of the economic elite has indeed publically expressed its concern as to the fact that states should not give up some of their most important economic control factors in favour of a supranational institution, thus relinquishing a share of its national sovereignty.

Even with this opposition fuelling Euroscepticism on an ever wider scale, it is to be noticed that the same Eurobarometer survey indicates beyond the shadow of a doubt that the dominant attitude towards European construction is either positive, or, in the worst case scenario, neutral, with 46% of European citizens adopting a favourable view of it, 36% taking on a neutral one and no more than 16% painting a negative picture in this respect (Doutriaux and Lequesne, Paris, 2008, p. 130-133).

One can state beyond the shadow of a doubt that the country where Euroscepticism flourishes most even at present is Great Britain, where its history dates back to the admission of the UK to the European Community in 1973 (Branigan, 2007). The British elections have always been a good occasion for such attitudes to be publically expressed, exploiting a population prone to advocate against the European Union. For instance, the UK Independence Party can be referred to as the most powerful Eurosceptic party across the EU, something that its leaders were skilled in exploiting during the latest elections for the European Parliament, in 2009, when the party was ranked second, after the governing Labour Party, with 16.5% of the votes.<sup>1</sup> This proves in fact that such is the opposition towards European construction in Britain that the voters switch sides from the national elections to the European ones to support the main principle, and arguably the only strong one, of the UKIP, which is withdrawal from the European Union. If one adds the significant number of votes gathered by another Eurosceptical and far-right British party, namely the British National Party, at the same elections, then it is to be noticed that a worrying 28% of the total votes cast in Britain went to parties that are frenetically opposed to UK membership of the European Union. Not

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<sup>1</sup> *European Election 2009: UK Results*, BBC News, 8 June 2009, [http://news.bbc.co.uk/2/shared/bsp/hi/elections/euro/09/html/ukregion\\_999999.stm](http://news.bbc.co.uk/2/shared/bsp/hi/elections/euro/09/html/ukregion_999999.stm).

far from these attitudes is the one exhibited by current Prime Minister David Cameron, who, at a time when the ratification of the Lisbon Treaty was endangered by Polish and Czech opposition, campaigned for a referendum on the Treaty, in the event that his party was to win the elections. Luckily for the reform process, the Treaty overcame these hurdles and came into force before the UK elections, which ultimately led to a right-wing coalition, between the Conservatives and the Liberal-Democrats, with no spectacular European affinities.

Moreover, opposition regarding European construction was paradoxically cultivated within a common institution, namely the European Parliament, a phenomenon which is specific to the tolerant and democratic nature of the EU. The parliamentary group called “Europe of Democracies and Diversities”, created in 1999, later to be called “Europe of Freedom and Democracy”, had at the core of its doctrine an obvious Eurosceptical attitude. In fact, perhaps the greatest achievement of this political group so far has been the repulsion of the Constitutional Treaty, which its members advocated from within the European Parliament itself. However, the latest parliamentary elections show a tendency to lower citizens’ support for these Eurosceptical parties, which now have only 32 members, from 9 out of the 27 member states.<sup>1</sup>

As far as the democratic deficit is concerned, it is a widespread belief throughout the European Union that its institutional layout does not represent the European citizens in a coherent manner, nor does it benefit from sufficient legitimacy (Degryse, 2007, p.252-253). This deficit is in fact a structural one, given that the EU is neither a transnational organization nor an intergovernmental one - it is a mix of the two apparently opposing principles, with a unique decision making mechanism and representation formula (Păun, 1999, p.167). This problem has been around since the deepening of European integration, in the 1970s, when the first accession wave took place, and resulted in a permanent attempt to increase the level of legitimacy of the common institutions. For example, the decision that the European Parliament’s members should be elected directly by the citizens, by universal ballot, came in 1979 as a response to this allegation of insufficient representation (Ghica *et al.*, 2007, p.64-65). Ever since, the Parliament’s prerogatives have steadily been widened, with ever more provisions to expand, for instance, codecision mechanisms to more and more domains, included into the Treaties. Hence, the structure and organization of the European Parliament has become close to the one of a national parliament, except for the fact that European Members of Parliament do not benefit from the right to propose Community Laws, a prerogative that is currently reserved for the European Commission.

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<sup>1</sup> *Europe of Freedom and Democracy* website, <http://www.efdggroup.eu/the-group/national-delegations.html>, accessed 18 June 2010.

What is true is that the turnout to European Parliament voting is still fairly low across Europe, possibly due to the fact that the average citizens feel they have little in common with this institution, although the electoral campaigns sometimes focus on quite punctual European issues that directly concern citizens. Other times, these campaigns do little more than to reiterate the same internal disputes as in the case of the national elections. Nevertheless, the reform process, in light of the Constitutional Treaty and the more recent Lisbon Treaty, has aimed at introducing further reforms that are meant to bring European citizens closer to the EU. Such measures include: a greater role given to national parliaments in the decision making process, the right to citizens' initiative (if one million of them sign for a legal proposal, under certain conditions), the public character of European Council meetings, extended use of codecision - renamed *ordinary legislative procedure* - and the acceptance of the subsidiarity principle as a fundament of European construction.<sup>1</sup> The latter stipulated that any community decision shall be taken at the lowest level possible, so as to involve the citizens that are likely to be affected by it (Millon-Delsol, 1992). Therefore, the European Union will not pass laws in areas that are better covered by national, regional or even local procedures.

## 2. THE TRADITIONAL AND THE NEW OPPOSITION

The ratification period of the Lisbon Treaty lasted from the 13<sup>th</sup> of December 2007, the date it was signed, until the 1<sup>st</sup> of December 2009, the day it came into force, thus being consistent in length with the average duration before a major European Union Treaty would usually become legally binding. Nevertheless, after the failure of the Constitutional Treaty, the ratification of the Lisbon Treaty became of paramount importance to the future of European construction and was carefully monitored by both politicians across Europe and citizens, by means of extensive media coverage.

The opposition towards the adoption of the Treaty, in direct connection with the two phenomena presented above - Euroscepticism and the Democratic Deficit - came from two major sides, which can fall into the categories of traditional and new opposition. The first of these poles includes countries where the anti-European sentiment is widely spread, namely Ireland and Great Britain. Of the two, the ratification process that nearly sealed the fate of the Reform Treaty occurred in the Republic of Ireland, the only member state bound by its national law to hold a referendum for

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<sup>1</sup> *Treaty of Lisbon*, Art. 9C,  
<http://www.consilium.europa.eu/uedocs/cmsUpload/cg00014.en07.pdf>.

the ratification of the Treaty. It was to turn out that this referendum would prevent the Treaty from coming into force on the day it was supposed to, which was the 1<sup>st</sup> of January 2009.

Once the Lisbon Treaty was signed, Ireland began preparations to hold the referendum, according to the procedures laid down in its national Constitution. A positive sign at the time came from within the three-party governing coalition at the time, which expressed their support towards a positive vote in the upcoming referendum, while only two nationalist and a socialist party proclaimed their opposition to the Treaty. Nevertheless, amid a general climate of suspicion towards the outcome of the Lisbon Treaty, the result of the referendum held on the 12<sup>th</sup> of June 2008 was against it, with 53.4% of the voters expressing a No vote and just a bit more than half the eligible voters participating in the ballot.<sup>1</sup>

Needless to say that the situation was a déjà vu of what had happened to the Constitutional Treaty three years before, in France and the Netherlands, causing anxiety throughout the European Union and especially in its institutional framework, all the more because the efforts made to create the new Institutional Treaty were considerable. The idea was that if the document was to be permanently rejected on that occasion, similarly to its predecessor, it was unclear whether there would be enough impetus left in the European Union to once again seek such an ambitious solution to the need for reform in the foreseeable future.

The first step in overcoming this situation came once the results of the referendum were made public and prepared the public opinion for a second ballot, thus initiating a massive information campaign across the nation. The reason why this was needed is that a sociological analysis of the reasons why the Lisbon Treaty was rejected in Ireland in the first place showed beyond doubt that the number one cause for this was the insufficient information the population had so as to understand the nature of the document. Hence, it comes to no surprise that a nation prone to a Eurosceptical attitude would be even more suspicious towards such a complex reform document if the information available about it was to be insufficient. This attitude is somewhat understandable, all the more because the Treaty itself is written in an intricate manner, compared to the Constitutional, as this particular one had a unitary layout (Moussis, 2005), while the Lisbon Treaty, as an amending document, has countless references to other Treaties. This not only makes it difficult to read, but it also fuels up an already hostile internal climate, when it comes to the expansion of competences attributed to the supranational bodies of the European Union (Kurpas, 2007).

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<sup>1</sup> *Ireland rejects EU reform treaty*, BBC News, 13<sup>th</sup> June 2008, <http://news.bbc.co.uk/2/hi/7453560.stm>.

A process of negotiation was therefore initiated not only between the Irish Government and its citizens, but also between Ireland, on the one hand, and the EU institutions and decision makers, on the other hand. The purpose of these discussions was clearly to find a middle ground so as to guarantee that the national interests of Ireland are not violated in any way through the approval of the new Treaty, especially in a series of quite punctual matters. For example, Prime Minister Brian Cohen argued that the European Union should commit itself to some amendments to the Lisbon Treaty, which should be included in the next Community Treaty, namely Croatia's upcoming accession Treaty. These modifications referred to the right of every member state to permanently have one Commissioner, as the Lisbon Treaty had originally intended to enhance the functioning of the decision making mechanism by reducing this number to 2/3 of that of member states. In addition to this, issues concerning abortion, taxation and a military status of neutrality were also on Cohen's agenda, with the ultimate goal of gathering the required popular support for the upcoming referendum.<sup>1</sup> After receiving the official confirmation from Brussels that the desired amendments would be included in the next Community Treaty, Ireland held its second referendum on the Lisbon Treaty, on the 2<sup>nd</sup> of October 2009, after a long period of reflection. The high hopes invested in this initiative finally paid off, as the Irish nation gave its approval to the Treaty of Lisbon by means of this second referendum, which resulted in a comfortable majority of Yes voters, with 67.1% of the total votes cast. In fact, the turnout was 6% higher at this second referendum than at the previous one, giving extra legitimacy to the result and taking a load off the shoulders of the artisans of the Reform Treaty, as well as of the European Union as a whole.<sup>2</sup>

Remaining in the area of traditional opposition towards the furtherance of EU reform, it is highly unlikely that Britain (Bulmer and Lequesne, 2005, p.137-138) should not be part of this analysis, although this topic did not hold the front pages of newspapers, as the Irish referenda did. The United Kingdom, in accordance with its national law, is not legally bound to hold any referendum on the Lisbon Treaty, as this is not a Constitutional one, but merely an amending Treaty. Nevertheless, there was one case brought forward before the High Court of the UK asking for the approval of a referendum on the Treaty, based on previous declarations made by members of the British Government. However, the Government defended itself by stating that the promise under discussion was only valid with respect to the Constitutional Treaty and did not affect the newer document, all the more because the Treaty of Lisbon is, as it has been pointed out before, an amending Treaty. This point of view was upheld by the High Court, which ruled that the ratification

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<sup>1</sup> *Brussels European Council 11/12 December 2008; Presidency Conclusions*, [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/104692.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/104692.pdf).

<sup>2</sup> *Ireland says "Yes" to Lisbon Treaty*, Herald Scotland, 3<sup>rd</sup> October 2009, <http://www.heraldsotland.com/news/politics/ireland-says-yes-to-lisbon-treaty-1.923771>.

procedure of the Treaty was legal and that there were no reasons to hold a referendum on the matter.<sup>1</sup>

Also in the area of experienced member states of the EU, it is worth mentioning that the ratification process of the Lisbon Treaty was jeopardized in Germany as well, where Eurosceptics turned once again to the weapon represented by the Constitutional Court, as it had occurred in the past as well. In a valuable opinion from the 30<sup>th</sup> of June 2009, the Federal Constitutional Court of Germany expressed the principles that the Treaty of Lisbon relied on, with special emphasis on the federal nature of the European Union and its compatibility with the German legal order. The most controversial issue in this respect was that on sovereignty, although the Court clearly stated that the democratic deficit within the EU could only be handled through the diminishing of national sovereignty, in its traditional sense. In spite of this need, the Court concluded that the newly-conceived reform process did not lead to the European Union becoming a federal state, thus there was no incompatibility between its provisions and those of the German Federal Constitution.<sup>2</sup>

Once this hurdle was overcome, the federal judges stated however that there were a few matters that should be dealt with prior to the ratification of the new Treaty. One of these issues involved the right of the Bundestag to exert a form of control over the votes cast by the members of the German Government within the Council of Ministers and other institutions - a problem that refers to the internal order of Germany and not to the substance of the Treaty in any way. Moreover, the Court ruled that it had the right to overrule judgments issued by the European Court of Justice, if these did not comply with German law - a more ambitious assertion by Germany, but also a fair solution to potential future claims meant to postpone the ratification of the Lisbon Treaty. In Germany, this did not occur, as, apart from these problems, there were no more obstacles in the way to ratification.<sup>3</sup>

If the abovementioned facts referred to what we wish to call “traditional opposition” towards the deepening of the process of European Integration, then the following aspects fall under the category of “new opposition”, depicting member states that lack experience within the European Community, but still express strong tendencies of Euroscepticism. The paradox is not difficult to notice here, as after long and tedious negotiations with the European Commission in order to become part of the Union, it should come as a surprise that these newly-admitted states (more precisely, in 2004) take the skeptical approach with respect to the future of the transnational

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<sup>1</sup> *Stuart Wheeler loses High Court challenge to the EU Lisbon Treaty*, The Times, 26<sup>th</sup> June 2008, <http://www.timesonline.co.uk/tol/news/uk/article4214748.ece>.

<sup>2</sup> *Act Approving the Treaty of Lisbon compatible with the Basic Law*, Federal Constitutional Court Press Release 72/2009, 30<sup>th</sup> June 2009, <http://www.bundesverfassungsgericht.de/pressemitteilungen/bvg09-072en.html>.

<sup>3</sup> *Decision of the German Constitutional Court*, 30.06.2009, <http://www.bundesverfassungsgericht.de/pressemitteilungen/bvg09-072en.html>.

organization they struggled so hard to enter. Nevertheless, the subsequent analysis should be understood in the ever changing context in international relations, to which it is worth adding the pressures triggered by the economic crisis and the alternation of governments in member states, each with its own perspective on what the European Union should look like.

The Czech Republic is perhaps the most fervent Eurosceptical member state falling into the category of the “new opposition”, with a determined (and stubborn) leader as Vaclav Klaus, who opposed the Treaty of Lisbon in spite of the positive vote given to the document in Parliament. The attitude of the Czech President was not entirely a surprise at the time, as he had already made a public statement upon the rejection of the Treaty in the Irish referendum of September 2008, pledging not to sign the ratification instrument until the situation had been rendered clear. Nonetheless, after the approval of the document by the Irish nation, following the second referendum, President Klaus continued to affirm his opposition towards the Lisbon Treaty, leading to another moment of crisis in its ratification process.

The so-called weapon used by Vaclav Klaus to delay the ratification of the Reform Treaty was mostly the Constitutional Court of the Czech Republic. With the support of a group of sympathetic senators, a procedure was initialized before the Court so as to attack the constitutionality of several articles comprised in the Treaty. Under Czech law, a Treaty cannot be submitted to ratification while such a legal procedure is pending, which was the perfect excuse for Klaus to express his opposition towards the Lisbon Treaty in various speeches. As the Constitutional Court conceded that those particular articles of the Treaty were compliant with Czech Law, the group of senators prepared a second procedure before the same Court, this time attacking the Treaty as a whole.<sup>1</sup> In fact, it was little more than a rather lame attempt to prolong a situation that was deemed to turn against the will of the Czech President sooner or later, especially given the reproaches made around the European Union as to the irrational opposition from Klaus.

On the 3<sup>rd</sup> of November 2009, roughly one month after the approval of the Lisbon Treaty by the Irish nation, the Czech Constitutional Court delivered its final verdict on the Treaty taken as a whole, stating that it was not incompatible with internal law, a verdict that proved to be decisive for its ratification. However, prior to this act, President Vaclav Klaus had asked for one more concession from the part of the European Union, this time regarding the Charter of Fundamental Rights. More precisely, the provisions of the Charter concerning the right to property could allegedly cause a conflict with the Beneš Decrees emitted right after World War Two, which expropriated the possessions of German and Hungarian citizens on the territory of Czechoslovakia

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<sup>1</sup> *Czech Constitutional Court OKs Lisbon Treaty*, CzechNews, 26 November 2008, <http://aktualne.centrum.cz/czechnews/clanek.phtml?id=623170>.

without the appropriate compensations.<sup>1</sup> This argument was in fact far from being new in the political discourse of the Czech Republic, as it has already been raised by right-wing politicians while negotiations were under way for EU accession. Nevertheless, it is difficult to assess the extent to which these claims are genuine and whether it was nothing more than another diversion from Klaus, who intended to make a stand as a promoter of a strong sovereign Czech state.

In reality, there are two aspects that need to be considered in interpreting this situation. Firstly, the same Decrees that Klaus insisted on upholding are part of the national law of Slovakia too, a state that made no claim whatsoever with respect to the Charter of Human Rights. Secondly, and most importantly, the European Union itself asked for a legal opinion from the part of the European Court of Justice during the negotiation process in order to assess the compatibility problems between the Community Acquis and these legal acts. The answer was self-explanatory, as it emphasized on the temporal impossibility from the part of the European Union to challenge the validity of the Beneš Decrees, since they were enacted before the European Communities were created, and *tempus regit actum*. This means that any measure taken by the EU against the abovementioned Decrees would break the basic principle of retroactivity, thus eliminating the potential threat to the Czech Republic in this regard.<sup>2</sup>

In spite of this, Vaclav Klaus promised he would sign the ratification instrument of the Lisbon Treaty on approval of this claim, which was conceded to him and led to his signing the Treaty on the day the Constitutional Court delivered its final verdict on the legality of the document, namely the 3<sup>rd</sup> of November 2009. Ten days later, the ratification document made its way to the Italian Government, marking the completion of the intricate ratification process in the Czech Republic and in the European Union as well and enabling the Treaty to come into force on the first day of the following month, as stipulated within it.

Although less energetic than the Czech opposition, Poland expressed a similar attitude towards the Treaty of Lisbon in the course of its ratification, thus it is worth including it into the category of the “new opposition”. It was the late President’s Lech Kaczynski who expressed publically, after the failed referendum in Ireland, that he had no intention of posing his signature on the document, until the situation was clarified. In the meantime, various discussions were conducted in Polish politics, which led to the signing of a protocol to the Charter of Fundamental Rights of the European Union, next to Great Britain, making this document virtually inapplicable in Polish legal

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<sup>1</sup> *Czech Republic 'planning to delay signing Lisbon treaty'*, Times Online, 21 September 2009, <http://www.timesonline.co.uk/tol/news/world/europe/article6841622.ece#>.

<sup>2</sup> *Legal Opinion on the Beneš Decrees and the Accession of the Czech Republic to the European Union*, Directorate-General for Research, October 2002, [http://www.kbdesign.sk/cla/projects/benes/related/legal\\_opinion\\_benes\\_decrees.htm](http://www.kbdesign.sk/cla/projects/benes/related/legal_opinion_benes_decrees.htm).

courts. This is because the provisions of the Charter are rendered non-mandatory for the two countries, especially the title referring to social and economic rights, which cannot be invoked in domestic courts as a consequence. For Poland, the arguments that were most frequently invoked pertained to social and ethical issues regarded as traditional, such as same-sex marriage, contrary to the UK, where the main point of concern was the extended right of workers to go on strike.

Internally, the perspective taken by Poland with regard to the Lisbon Treaty was quite complex, as the ruling party, led by Prime Minister Donald Tusk, had initially expressed its support for the Charter, in contrast with the Kaczynski brothers' Law and Justice Party. Nevertheless, the situation was more complicated than that, given that the Government needed the support of this party to achieve the ratification of the Lisbon Treaty in the Polish Parliament, which made Tusk change his initial attitude towards it. On the other hand, it is likely that Poland will eventually adopt the Charter of Fundamental Rights in the future, as Donald Tusk himself implied.<sup>1</sup>

It was the second referendum on the Reform Treaty in Ireland, in October 2009, which determined President Kaczynski to sign the ratification instrument, leaving the fate of the Treaty in the hands of the last two countries that had not completed the process at the time, namely Ireland and the Czech Republic - the former clearly not facing any more obstacles in the way to ratification.<sup>2</sup>

### 3. THE RATIFICATION PROCEDURE

The Treaty of Lisbon, as in the case of other European Community/Union Treaties, was submitted to a sinuous process of ratification, before it finally became legally binding, on the 1<sup>st</sup> of December 2009, almost one year later than it had been expected to. There are various considerations that need to be made with regard to this process, so as to comprehend the reason why it took member states so long to get the necessary "paperwork" done, as well as the hurdles that had to be overcome along the way.

There are various steps that together form the lifeline of an international Treaty, some encountered in the case of European Treaties as well, while others are particular traits of the latter. First, the signing and ratification procedures have to comply with international law, making them safe from subsequent challenges from the part of their opponents. Therefore, the most important

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<sup>1</sup> *EU-Poland: Opt-out Protocol to the Charter of Fundamental Rights*, Statewatch News, 1<sup>st</sup> January 2008, <http://www.statewatch.org/news/2008/jan/01eu-poland.htm>.

<sup>2</sup> *Poland ratifies Lisbon Treaty as Czech cloud hangs overhead*, EU Observer, 10<sup>th</sup> October 2009, <http://euobserver.com/18/28809>.

steps undergone by the Treaty of Lisbon commenced with the drafting phase, which was conducted under the auspices of the European Council. The summit of Brussels in the summer of 2007 mandated an Intergovernmental Conference to prepare the draft of the new Reform Treaty, as it has occurred with previous such documents within the European Union. The purpose of this mandate is to provide the instance chosen to find the appropriate formulation for the Treaty with legitimacy, thus proving that the latter reflects the will of the member states. Contrary to national procedures in democratic states, however, this mandate was not conferred to the Constituent Assembly by Parliament, which represents the will of the people (in this case, the European Parliament), because in the case of the European Union, it is customary that the intergovernmental element at its highest level should be the one providing the impetus for further reform (Mads and Usher, 2003, p.240-241).

The following step in the evolution of the draft was for the Conference to choose the nature of the Treaty and the different approach taken by it, in comparison with its predecessor, the Constitutional Treaty. More precisely, it was decided that the new Treaty should not aspire to the status of a Constitution, so as not to fall into the same trap as its precursor. In exchange, the new document was given the name of Reform Treaty, which it would bear even today, had it not been for the Portuguese capital hosting its signing in December 2007. Along with its name, it was decided that the form of the new Treaty should be that of an amending one, which would replace articles from both the Treaty of Rome, henceforth named “Treaty on the Functioning of the European Union” and the Treaty of Maastricht, still referred to as the “Treaty on the European Union”.

Furthermore, the panel of experts that created the text of the new Treaty had to find an appropriate formula to make the text of the Charter of Human Rights<sup>1</sup> legally binding, without making this too obvious, so as not to openly confront the opposition that had rejected the Constitutional Treaty on these grounds - amongst others - in France and the Netherlands (Pécheul, 2008, p.101-102). Whilst this document included the text of the Charter as a national Constitution would normally do, it was decided that such a measure should be avoided in the new Treaty, but without abandoning the Charter, which awaited its empowerment since its approval in 2000 (Mads and Usher, 2003, p.399). The formula that was agreed upon was that of having a single article embedded in the text of the Treaty, which would give legal value to the Charter, a measure that is both effective and discrete, and does not bring the European Union much closer to a super-state, as the opposition might have argued.

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<sup>1</sup> *Charter of Fundamental Rights of the European Union*, in Official Journal of the European Union, 14 December 2007, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:303:0001:0016:EN:PDF>.

The Intergovernmental Conference in charge of drafting the Treaty had as a solid starting point the project presented to it by the Portuguese Presidency of the European Union (July-December 2007), bearing the name of “Draft Treaty Amending the Treaty on European Union and the Treaty Establishing the European Community”.<sup>1</sup> In order to make sure that transparency was guaranteed at all times, the draft was made public on the Council of Ministers’ website and subjected to public debate. Moreover, along with scholars and political representatives from all the member states, the workgroup also included three members delegated by the European Parliament, in order to represent the supranational interests of this institution. The work of the Conference was far from simple, as countless pressures from the part of member states, such as Poland and the Netherlands, exerted their influence on the final shape of the Treaty’s draft.

It was the October 2007 European Council in Lisbon, led by Portuguese Prime Minister José Sócrates, at the time President of the Council, that the final adjustments were made to the future Treaty of Lisbon, based on Polish claims to benefit from a cushion period until new qualified majority voting rules were applied in the Council of Ministers. This new form of the old Ioannina Compromise (Sauron, p.44-45), along with the nomination by Poland of an Advocate General at the European Court of Justice, guaranteed the Polish support, needed to sign the Reform Treaty the following month.<sup>2</sup> Indeed, on the 13<sup>th</sup> of December 2007, the much-awaited day of the official signing ceremony came, regrouping executive leaders from all the member states, with a temporary absence of British Prime Minister Gordon Brown, who put his signature on the Treaty a few hours later. Given that the Portuguese capital hosted the ceremony, more precisely the picturesque Jerónimos Monastery, the Reform Treaty was permanently given the unofficial name of Lisbon Treaty, in light of the European Union’s tradition in this regard.

Apart from the brotherhood atmosphere and the symbolism of this event, as shown in the traditional “family photo” of all the participants (including the Presidents of the European Parliament, Commission and Council), the moment started a chain of events that proved to be hard to predict, let alone control, before the Treaty of Lisbon finally became law two years after its signature. The procedure of ratifying the freshly-signed Treaty was similar to that of previous such documents, and consisted of two major steps. The first was for member states to undergo a parliamentary ratification process, according to national regulations, followed by the signing of the ratification instrument by their head of state. The second step was merely a formal one and it

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<sup>1</sup> *Draft Treaty Amending the Treaty on European Union and the Treaty Establishing the European Community*, Presidency of the IGC, 5<sup>th</sup> October 2007, <http://www.consilium.europa.eu/uedocs/cmsUpload/cg00001re01en.pdf>.

<sup>2</sup> *Declaration ad Article 222 of the Treaty on the Functioning of the European Union on the number of Advocates-General in the Court of Justice*, DS866/07, 18 October 2007.

consisted of depositing the ratification file with the Government of Italy, which had been chosen for this task.<sup>1</sup>

As previously mentioned, by then, the regulations of each member state but one stipulated or had been changed so that national parliaments were allowed to vote for the ratification of the Lisbon Treaty. Nevertheless, the Republic of Ireland was compelled by domestic law to hold a referendum for the approval of the Treaty, while other member states, despite rumours and previous public statements invoking potential referenda as well, did not recur to this instrument.

The very first member state to have ratified the document was Hungary, whose legislature expressed a categorical “yes” for it no later than four days after its signing, which seems extraordinary for such a complicated endeavour. For the procedure to be complete, Hungary finalized the ratification process on the 6<sup>th</sup> of February 2008<sup>2</sup>, once the ratification instrument, with the Presidential assent granted, was deposited at the Italian Government.

The other member states followed Hungary in the ratification effort, so that by the end of 2008, all but four member states had deposited their files. This did not mean, however, that the Treaty of Lisbon had a green light to come into force, as it needed to be ratified by all of the EU members before it could become law - and at least three of the four countries failing to act positively on it by 2009 were raising serious questions as to whether they would ever complete the process. While this was not the case of Germany, where support for the Treaty at the highest political level was reassuring, Poland, the Czech Republic and Ireland each posed severe problems in terms of ratification, as it has been pictured above.

On the other hand, there were two countries that had ratified the Lisbon Treaty with an absolute majority in their respective parliaments, namely Italy (in both the Chamber of Deputies and Senate)<sup>3</sup> and Malta<sup>4</sup>, with the rest approving the document with a comfortable majority (as in the case of Romania, where only one vote was cast against the Treaty and another MP abstained from voting). The closest vote was expressed, as expected, in the British House of Commons, but not even there was the ratification process even close to a standstill, with a difference of almost 150 MPs between those supporting the Treaty and those voting against it.<sup>5</sup>

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<sup>1</sup> *Treaty of Lisbon*, Article 6 (2)

<http://www.consilium.europa.eu/uedocs/cmsUpload/cg00014.en07.pdf>.

<sup>2</sup> *Hungary First to Ratify EU Treaty*, Deutsche Welle, 22<sup>nd</sup> October 2010,

<http://www.dw-world.de/dw/article/0,,3010107,00.html>.

<sup>3</sup> *Italy's Senate Approves EU Treaty*, EUBusiness, 23 July 2008, <http://www.eubusiness.com/news-eu/1216842483.98>.

<sup>4</sup> *The Malta Government Gazette*, no. 115, 5 February 2008,

<http://www.doi.gov.mt/en/gazetteonline/2008/02/gazts/GG%205.2.pdf>.

<sup>5</sup> *EU Treaty Bill Clears the Commons*, BBC News, 11 March 2008,

[http://news.bbc.co.uk/2/hi/uk\\_news/politics/7290871.stm](http://news.bbc.co.uk/2/hi/uk_news/politics/7290871.stm).

The last ratification instrument to be deposited was that of the Czech Republic, on the 13<sup>th</sup> of November 2009. The Treaty of Lisbon stipulated that it would come into force only on the first day of the month following this event, which meant that the 1<sup>st</sup> of December 2009 was the day the ratification process officially came to an end, with the Treaty becoming part of the EU's legal system.

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# THE EUROPEANIZATION OF CENTRAL AND EASTERN EUROPE

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**Abstract:** *The Central and Eastern Europe Countries (CEECs) have been shaped by the EU conditionality, meaning that these countries were obliged to develop their administrative capacities in completely convergence with the *acquis communautaire* in order to join the European Union. The 2004 and 2007 enlargement of the EU and the accession negotiations have brought a systemic transformation of the CEECs through what is known in the literature as Europeanization. It seems to be a strong connection between conditionality and Europeanization, the former giving way to the latter. Therefore the capacity and the willingness of candidate countries to transfer the *acquis* into the domestic legal context have had a significant influence in the way in which the Europeanization process has succeeded in inhabiting the governance system of the CEECs.*

*Considering these, the purpose of this paper is to examine through which mechanisms it was realized the correspondence between EU conditionality and the process of central and eastern enlargement-led Europeanization which seems to have been internalized distinctively by the CEECs, where administrative resources to comply with European standards were lagging behind.*

**Keywords:** Europeanization, conditionality, European Union, CEECs

**JEL Classification:** R11, R38

## 1. INTRODUCTION

In the case of the CEECs, the Europeanization process involved transformation as a response to European Union pressures (conditionality), in order to be part of the EU. This “Twinning exercise” (Papadimitriou and Phinnemore, 2004) has represented an instrument for the CEECs governments to transfer the *acquis communautaire* into their institutions and practically to empower Europeanization to be part of the domestic system. As we shall see, the CEECs have linked their economic, social and political development with the European Union and regarded their Europeanization as a desirable and modernizing change (Anastasakis, 2005). But it remains one

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vital question 'what does Europeanization truly mean?'. This issue of Europeanization is increasingly analyzed in the recent European studies and also more and more debates are developed around this intriguing theme.

To begin with, we have to admit that Europeanization has become an influential and fashionable locution in social scientific terminology, likewise in the commonplace discourses on Europe. Commencing from the multiplicity of use, this term can have a concrete and specific meaning and, at the same time, evasive and all-embracing. Europeanization signifies a means and an end; it represents method as well as substance; it defines a project and a vision (Anastasakis, 2005). Moreover, this concept evidences a specific political, socioeconomic and cultural reality, but concurrently it symbolizes an ideology and a myth. More than that, it has universal value by cause of its historical, aggregate and global nature. Also, its influence determines internal repercussions for Europe and, at the same time, an external implication for the rest of the world. Europeanization involves diverse meanings in various states or regions included in this process: for the emergent eastern European countries, it signifies structural reformation and modernization; for the developed countries of Central Europe, it means a light exercise of reliable reform and adaptation.

## **2. LITERATURE REVIEW**

The study of Europeanization has acquired momentum in international relations literature. It has become stimulating for the analysts because it represents a model-building mechanism – a political system in the making which generates verdicts and influences the domestic structures (Bulmer and Radaelli, 2004). A lot of definitions about Europeanization pinpoint the European Union at the center of the debate, taking into consideration the fact that EU has attributed to this concept a more systematic, concrete and structured meaning – so much so that nowadays Europeanization is perceived factually as “EU-ization” (Anastasakis, 2005). Taking into account this last aspect, Radaelli defines Europeanization as “processes of (a) construction, (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, “ways of doing things”, and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic discourse, identities, political structures and public policies” (Radaelli, 2000). This interpretation is extremely comprehensible because it reveals Europeanization as a bilateral process, not just a simple unidirectional process to Europe (Salgado and Wall, 2004).

To be absolutely fair, we have to recognize that world-class European analysts proved to be unable in coming up with a single definition for this complex concept called “Europeanization”. By

reviewing a certain number of contributions to the study of Europeanization, a broad description of the concept will be provided in order to set the context. Firstly, it should be said that this term has many possible meanings and it is used in several ways to describe a variety of phenomena and processes of transformation. For a profound understanding, we should look for an ample definition, following Johan Olsen's approach, according to which there are five different, but related phenomena called Europeanization, with the essential mention that all these diverse conceptions complement, rather than exclude each other. Hence the author identifies five possible meanings of the term "Europeanization": transformation in external territorial boundaries (enlargement), developing institutions of governance at the European level, central penetration of domestic systems of governance, exporting forms of political organization, a political unification project (Olsen, 2002).

Beyond the variety of significations identified by Olsen, in the literature dedicated to Europeanization, we can remark a "mainstream meaning" of Europeanization, which represent a composite concept. Considering this, Europeanization appears to be a complex term that covers a set of phenomena describing a different process, being defined by the next four dimensions (Strang, 2007):

- adjustment of local policies to EU exigencies and policies (downloading);
- domestic projection of Member States' interests, or the effort of Member States to promote their interests into the agenda and policies of the EU (uploading);
- elite socialization;
- bureaucratic re-organization.

As we can observe, Europeanization represents a complex process of transformation for the candidate countries, in order to be part of the European Union.

### **3. THE IMPLEMENTATION OF THE EUROPEANIZATION PROCESS IN THE CEECs**

During the accession negotiations to EU, the Central and Eastern European Countries had to shape their administrative systems and to develop an uniform model of public administration in order to join the European Union. All this process called Europeanization was possible by using five conditionality instruments (Grabbe, 2001). The first instrument is *gate keeping* which means the access to negotiations and other steps in the accession process to European Union. In the second place, *benchmarking and monitoring*, an instrument utilized for supervising the progress of the applicant states. In the third place, *provision of legislative and institutional transformations*, which refers to the legal transfer of the *acquis communautaire* and the harmonization with EU regulations.

In the fourth place, *money*, which relates to the aid and technical assistance in order to develop the institutional capacity of the candidate countries. And finally, in the fifth place, *advice and twinning*, which involves support from the EU officials for the administrative institutions of the CEECs to comply with the *acquis*.

All these five mechanisms presented above are shaping policy-making in CEECs, but most importantly is the fact that European Union has made use of the asymmetry of power to fulfill a vital goal: the Europeanization of the policies of the candidate countries. More than that, this asymmetry of power is enforced by conditionality and evidences the top-down relationship between the EU and the applicant states (Ladrech, 1994).

After the collapse of communism, Europeanization took the following turn: this “EU-ization” process was associated with enlargement of the EU to the East. The objective of Europeanization covered the impact of EU integration on eastern countries with previously different economic and political experience. Europeanization of the CEECs, process called “The Eastern style” (Goetz, 2001) refers to the transgression to democracy and a market economy and adaptation to the standards of the developed models of the West (Anastasakis, 2005). In this sense, Europeanization in the preparatory stage of pre-accession has represented an externally driven process of reformation defined by the EU centers of power.

As it was mentioned above, EU has presented a variety of requirements that candidate countries had to fulfill in order to receive the most important reward from EU, meaning the full membership. In order to achieve such an output, EU political conditionality has also followed the strategy of reinforcement by reward (Schimmelfenning and Sedelmeier, 2004). For a profounder analyze of EU political conditionality in the enlargement process, in the following it will be described three crucial criteria: the size of the reward extending the costs of compliance, credibility and determinacy of conditions.

Commencing with the size of the reward, indubitably the promise of full membership had a fundamental impact on the candidate states than any other incentive advanced by EU. The inducements which were directed to CEECs referred to the access to internal market, access to the subsidies of the European Union’s regional and agricultural policies, complete collaboration in the decision making process, barely to name the most fundamental ones. These inducements have helped to readjust the costs and benefits of the exigencies’ fulfillment and in this way they have fortified a profounder compliance of the targeted governments (Schimmelfenning and Sedelmeier, 2004).

The credibility of European Union’s conditionality which refers to EU’s menace to keep back the reward of full membership in case of failing to adopt the rules, on the one hand, and on the other

hand, to the promise to offer the reward in case of compliance, were both at a very high level. In what concerns the determinacy of the conditions, here there are some shortcomings.

In what concerns the determinacy of the conditions, here there are some shortcomings. The political conditions have been ambiguously defined and therefore caused disorientation within targeted governments regarding the necessary steps to take that would have satisfied Brussels (Mineshima, 2002).

#### 4. CONCLUSIONS

Taking into consideration all the aspects of EU's conditionality which have been presented above, it must be mentioned that in the absence of central and eastern enlargement and accession conditionality – the so called Europeanization process, the export of EU rules would have remained limited and patchy and the CEECs would have remained some "weak states" incapable to develop in harmonization with European standards and to become part of the EU.

Needless to say, the internalization of Europeanization proved to be heterogeneous from country to country. This aspect can be easily observed in different levels of political and socioeconomic performance. For instance, in the eastern countries such as Romania and Bulgaria, here still are a variety of problems: political elites are corrupt and ineffective, human capital is limited with a strong predilection to migrate in more developed states, public administrations prove to be perpetually anemic etc. This non-uniform internalization of Europeanization demonstrates that, although, this process in different countries may be based on identical exogenous principles and the operation of similar instruments, eventually Europeanization proves to be a distinctly national exercise of reformation and adjustability. It represents a path of domestic transformation in which every country adapts its policies, processes and institutions to new rules, procedures and practices emanating from the same European system of governance.

Finally, it must be added that in the short and medium term, this Europeanization process may be linked with obligations and complicated socio-economic and political choices for the countries involved. On the other hand, in the long term, Europeanization is synonymous with development, modernization, stability and a certain security based on light power and the advantages of cooperation and co-existence. In other words, with this accession to the EU, new members have become more engaged in internal EU processes. Consequently, the Central and Eastern European countries are now better placed to influence the agenda and the direction of Europeanization.

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# IS THE FUTURE OF ACCOUNTING COMPATIBLE WITH THE ACCOUNTING OF THE FUTURE?<sup>1</sup>

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**Abstract:** *Purpose – There is currently a tendency to reverse the relation between physical and intangible assets, in favor of the latter, which triggers the need to pay an ever higher attention to intangible assets. This article aims at presenting the relativity and inconsistency of the current accounting systems and does not claim to suggest an alternative. Conclusions – Intangible assets are the most important resource that companies have in the process of value creation, but accounting balance in what concerns acknowledging, evaluating, and presenting intangible assets is only in an initial stage, in spite of the efforts made by national and international accounting bodies.*

**Keywords:** accounting, intangible assets, market value, accounting value, e-commerce.

**JEL Classification:** M41, L81

*The future depends on our lucidity.*

*Augustin Buzura*

## 1. INTRODUCTION

The idea of this material is simple: it is fundamentally wrong for the accounting system not to adapt to the evolution of the current business models, an evolution largely determined by technological progress.

After Babel, we are all locked in language, in our own constructs on reality. If there were a universal language of accounting, with common rules, concepts, and practices for all the countries, understanding would be instantaneous, spontaneous. But, however, this idea has not materialized yet. Attempts continue... Like any revolution, the one in the accounting field is justified through

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ideas. Accounting is an art, a science, as well as language, a technique nurtured not only by past knowledge, generated by practice, but also by the results provided by research. Leaving hybrid formulae aside, it is difficult to accept with undeniable arguments that the subject we serve, accounting, is a science, since the truth is that this field operates in almost equal proportions with objectivity and subjectivity.

Although the business world has suffered significant mutations in time, the accounting system is still ruled by traditional production factors, ignoring the importance of knowledge as a production factor and as an element of the financial health of the company. Knowledge is not subject to traditional economic laws: if most physical assets decay, they lose some of their value because of their usage in the economic activity, the use/reuse of intangible assets increases their value.

In nowadays economies, traditional evaluation methods are more and more inappropriate and often irrelevant for determining the real value of a company.

## **2. EVALUATING THE INTANGIBLE ASSET IN A KNOWLEDGE ECONOMY**

Intangible assets are, at present, the key to the economic success of any business, especially as we live in an information era, in an economic environment based on knowledge, in a global network society (Petty and Guthrie, 2000).

In the vision of the International Evaluation Committee, IVSC, in the General Standard for Practice in Evaluation GN 4, the revised edition 2010, intangible assets are non-monetary assets manifested through their economic properties. They do not have any physical substance, but grant economic rights and benefits to their owner or to the owner of a part of them. According to the same standard, intangible assets can be grouped into: assets derived from rights, assets based on relations, grouped intangible assets, and intellectual property.

The definitions of intangible assets provided by the main accounting bodies are similar, as all stress the fact that intangible assets are assets with no physical and monetary substance, owned by the company as a result of past events, and which will generate future economic benefits.

The value of a company is mainly given by its intangible assets, defined by Lev (2003) as resources without physical substance, which will generate future economic benefits for the company that owns them. Considering the importance of the intangible asset in obtaining competitive advantages, the efforts of the companies focus more and more in the direction of its identification, acknowledgement, and correct evaluation (Marr and Schiuma, 2001; Cañibano et al.,

2002; Marr, 2004; Bueno et al., 2004; Gray et al., 2004; Roberts and Breunig, 2004; Augier and Teece, 2005).

In time, intangible assets have been considered high risk assets. However, in nowadays economies, the real value of a company results from its intellectual capitalul, which, in the opinion of Edvinsson and Malone (2000), includes human capital (knowledge, skills, and competences of the employees), structural capital (the infrastructure that supports the activity performed by the employees: buildings, hardware, software, processes, patents, trademarks, the organizational structure, information systems, and databases), innovation capital (intellectual property and intangible assets, defined as the set of skills and theoretical knowledge that ensure the functioning of the company), and relational capital (the relations with the customers and the providers, gaining their loyalty).

Accounting professionals have directed their attention towards the analysis of intangible assets at the beginning of the 1980's, often calling them goodwill. Later, towards the middle of the 80's, the concept of intellectual capital has been introduced as a result of the interest shown by the large quoted companies in calculating the difference between the accounting value and the market value of the company (Edvinsson and Malone, 2000; Roos et al., 2001; Andriessen, 2004).

But what means measuring and evaluating knowledge in a knowledge economy?

The acknowledgement criteria (control, future economic benefits, credible cost measurement, and separation from the commercial fund) must be met before an intangible asset can be acknowledged. One of the most difficult criteria to be met is the credible cost measure. Supposing that this condition can be fulfilled, intangible assets are initially evaluated at their own cost, respectively at the input value: purchase price, production cost, vendor's asset or just value.

Generally speaking, internally created intangible assets are not acknowledged, except for intangible assets acquired from third parties.

If most companies perform periodic patrimony and financial evaluations, very few do the same in what concerns intangible assets, since their intangible nature is incompatible with the precision required by their evaluation. The evaluation of intangible assets is harder to achieve as standardized criteria are not identified to this purpose.

It is unusual to have an active market for intangible assets. For instance, it is impossible to have an active market for patents and trademarks, considering that each asset is unique. When a current price cannot be obtained, the price of the most recent similar tranzaction can provide a sufficiently reasonable basis for estimating the just value. Where an active market does not exist, the cost will be the amount that an entity should pay for an asset, in a tranzaction made willingly between the informed parties and where the price has been established objectively. For example: an

entity owns a football team and it decides to sell a defenceman and buy an assailant. Also, several similar entities are involved in the process of selling-buying the players and there is an active market of the players who are transferred from one entity to another. The price to be paid or received will depend on how much the other entities on the market are willing to pay.

Because of these reasons, it is necessary to analyze if the cost (the just value) of an intangible asset can be credibly evaluated and, if possible, to periodically re-evaluate its just value in order to ensure that the accounting value is not significantly different from the value that would be computed using the just value at the balance date.

A price obtained on an active market will provide the most credible estimation of the just value. The just value is, according to IAS regulations, the amount for which an asset can be sold or a debt can be discounted, willingly, between informed parties, in a transaction where the price is objectively computed. Similarly to the concept of faithful image, the just value expresses an extremely wide approach, which can always be improved. For this reason, the basis of the just value has to be centered on the market value. No just value is just and relevant if the market (the buyer) does not acknowledge it as such (Horomnea, 2008, p.380).

A number of studies (Brennan, 2001 and Gröjer and Johanson, 1998) have pointed out the differences that exist between the market value of a company and its net accounting value, as a result of the presence of intangible assets, which has led to a concentration of the efforts in order to identify and quantify the “missing assets”. For example, the 2004 statistics showed that the market value of Microsoft was 286.2 billion dollars, while its financial value was only 57.5 billion dollars, which means a ratio of 5:1 in favor of intangible assets. For eBay, the market value was 54.5 billion dollars, and the financial value 4.9 billion dollars, resulting in a ratio of 11:1 (Dess, Lumpkin and Eisner, 2006, p.119).

The presentation in annual statements information on intellectual capital triggers a series of advantages in comparison with its acknowledgement and evaluation. On the one hand, the standards drawn by accounting bodies are restrictive in what concerns the acknowledgement and evaluation of the intangible asset, and on the other, the identification and measurement of the asset elements that determine the difference between the net accounting value and the market value imply additional costs. Many of the solutions suggested in order to solve the “problem” of intangible assets are based on the provision of supplementary information concerning the intangible asset in the annual statement.

The presentation models of such information (often including measuring elements to be used internally by the company) have started to be used at the end of the 1980's. The Swedish company Skandia has developed its own model for reporting the information concerning intellectual capital.

The *Navigador Skandia* model identifies three components of intellectual capital: human, structural, and relational, and uses for its evaluation 90 elements, classified into 5 groups, namely: financial (20), human (13), processes (16), clients (22), innovation/development.

Sveiby (2001) has developed the *Intangible Assets Monitor*, a model that evaluates intangible assets under 4 aspects: growth, innovation, usage/efficiency, and reducing risks/stability.

*Balanced Scorecard* is a management and optimization system of the execution of the strategy of an organization, which allows the company to gain an accelerated increase in its operational performance and to meet the strategic objectives defined. Initiated by Robert Kaplan and David Norton, *Balanced Scorecard* has been adopted by thousands of companies worldwide, which are using it successfully, reaching what Kaplan and Norton (1992) name “The Execution Premium”.

### 3. “TO PREPARE THE FUTURE ONLY MEANS CREATING THE PRESENT...”

In spite of the efforts concentrated on achieving an *international accounting harmony*, in what concerns the publication of information regarding intangible assets, we cannot speak of a convergence towards the international accounting norms (Brannstrom and Giuliani, 2009, Lhaopadchan, 2010). Although it is possible for accounting harmony never to be attained, the annual financial statements need to include a minimum of information on intangible assets in order to support the decision-making process of the users. To this purpose, companies could use additional documents to correct what is missing from the traditional financial-accounting reporting system (Mouritsen, 2006). The intensification of competition, the development of new business segments and technological progress have all lead to the deterioration of traditional financial statements (FASB, 2001b).

Financial statements lose their relevance as the source of value creation in global economy changes, residing in the intangible part of the asset (Grasenick and Low, 2004). It is required to alter the traditional accounting system so as to include intangible assets in the analysis, with the purpose of obtaining a faithful image of the financial position, of the economic performance, and of its modification.

There are, in essence, two different approaches, although not necessarily disjunct, in what concerns the accounting of intangible assets, of intellectual capital. In case intellectual capital or some elements in its composition are regarded as usage value assets, it is logical to determine this value and for it to be acknowledged in the balance. The other approach suggests presenting information on intellectual capital, without attributing it any monetary value (Gowthorpe, 2008).

The users of financial statements are primarily interested in the information on intangible assets, especially that they are considered to be the catalysts of value creation for the company. In order to meet the needs for information of the various users, some companies draw special reports where they present the nature and value of intellectual capital, structured into: human capital, structural capital, and relational capital (Castilla Polo and Gallardo Vázquez, 2008).

In a globalized economy, based on knowledge, intangible assets become an important source for the aggregate value of a company and for its financial stability.

In specialized literature, few studies have been concerned with the manner in which financial analysts use the information on intangible assets. García-Meca and Martínez (2007) have shown that, in over 70% of the analyzed cases, financial analysts present information on the new investments, on the credibility of the company, on the adopted strategy, as well as on the partnerships and agreements closed with other companies. The same study stresses the fact that annual financial reports do not include information concerning the innovation, research, and development activities because, on the one hand, such intangible assets are difficult to measure and, on the other, in order not to provide information that could be used by competition.

There is a direct relation between the profitability of companies and the amount of information regarding the intangible assets presented in annual reports (García-Meca and Martínez, 2007). Widener (2006) concludes that presenting a larger amount of non-financial information is highly important in the monitoring and control process of the companies. In nowadays economy, intellectual capital is considered a critical resource for ensuring a real and sustainable competitive advantage (Marr *et al.*, 2002, Steenkamp and Kashyap, 2010).

Carlucci *et al.* (2004) proves that the management of intellectual capital decisively influences the performance of the company. But *the accounting of intellectual capital does not successfully integrate with the traditional accounting and reporting model*. The main problem comes from the fact that, while the traditional accounting system takes into consideration both the assets and the liabilities of the own capital, intellectual capital, as it has been theorized until now, includes only assets, ignoring intangible liabilities. Also, any effort to measure intellectual capital is subjective, and therefore little credible from an ethical point of view (Gowthorpe, 2008).

If we admit the existence of intangible assets and determine their economic value, we cannot omit their provenience, the way they are funded, in other words, we must also acknowledge intangible liabilities (García –Parra *et al.*, 2009). Among them, we distinguish between own capitals (more specifically, hidden resources) and attracted funds, or debts.

Hidden resources are those that are not mentioned in financial statements, representing the difference between the purchase price and the market value. The part of intangible assets funded from the own capital implies the existence of hidden reserves with an equivalent value.

Intangible assets can also be used to attract foreign funds. This is not only a theoretical possibility, since practice already proved the existence of financial operations where intangible assets are used as guarantees for obtaining long-term loans.

In an economy based on knowledge, it becomes an imperative to identify and locate intangible assets in the functional departments of the company and to determine their influence on the performance of the entity (Chareonsuk and Chansa-ngavej, 2008).

#### 4. CONCLUSIONS

Just like Janus, accounting has two faces: a theoretical, scientific one and an operational one. In what concerns the adaptation to the intangible economy, theoretical accounting has made important steps by acknowledging the importance of intangible assets and liabilities, of knowledge as a production factor, but operationally the changes are slower, as the configuration of the traditional accounting system remains adapted to the industrial company.

The accounting system has to extend its span at the level of intangible assets so as to truly reflect the economic reality. Intangible assets are the most important resource of the companies, especially those in the e-commerce field. The definition, the acknowledgement, the measuring, and the continuous evaluation of intangible assets, as well as the presentation of financial information on the intangible asset represent the premises for obtaining valid, complete, and relevant information in decision making.

The topic above is highly complex, and this material is intended only as an alarm signal, which records the relativity and inconsistency of the current accounting system, without claiming to suggest an alternative.

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# THE EUROPEANISATION PROCESS AND THE PRE-ACCESSION DYNAMICS IN ROMANIA

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**Abstract:** *In recent years a substantial part of literature that covers topics on European integration has turned its attention to how the membership of the European Union (EU) has generated and contributed to domestic reform, a process commonly known as Europeanisation. This process represents the reform of institutions, structures and policies in compliance with the requirements, policies and dynamics of the European integration mechanisms. Following the national - European interaction, countries internalise European legislation and adapt institutionally. The purpose of this paper is to analyse the Europeanisation process and also to what extent it has influenced the political and economic reform in Romania throughout the pre-accession period. Despite its essential contributions, the Europeanisation effects were less significant in Romania (especially in the early years of negotiations with Brussels) compared with other Eastern European countries. And this has not been caused by the Europeanisation lack of efficiency, but mainly because of the Romanian political class reluctant to change that largely undermined the dynamics of the accession process.*

**Keywords:** European Union, Europeanisation process, EU membership, Romania

**JEL Classification:** Y 80

## 1. MAIN FEATURES OF THE EUROPEANISATION PROCESS (THE ROMANIAN EXPERIENCE)

Europeanisation is one of the theoretical instruments which had a vital influence on Romania's transformation especially at the beginning of the 21<sup>st</sup> century. Due to its aspirations of becoming member of the European Union (EU) and in its attempt to fulfil the Copenhagen criteria, Romania tried to comply with the *acquis communautaire* and the European principles under whose framework the EU has been built.

Romania's transformation which allowed the country to move closer to EU membership commenced with the submission of its membership application in June 1995 and it was chiefly influenced by the Europeanisation process and its effects. "Having applied to join the EU *club*, it was now in a position where it could abide by the club's rules and be a responsible member that could be relied on to fulfil its membership obligations." (Papadimitriou and Phinnemore, 2008, p. 7) The concept of Europeanisation means, by and large, "the reform of domestic structures, institutions and policies in order to meet the requirements of the systematic logic, political dynamics and administrative mechanisms of European integration" (Joseph, 2006, p. 2). Europeanisation is often depicted as a constant "interaction between the national and the European levels" (Risse *et al.*, 2001, p. 2), "as a merger of the top-down and bottom-up perspectives" (Börzel and Risse, 2003, p. 57). In this paper, the concept of Europeanisation employs a top-down perspective, analysing the limits of EU influence on domestic settings (in this case on Romania). The thorough understanding of the domestic environment upon which Europeanisation impacts is an essential prerequisite in order to explore the mechanisms of this process. Thus, Ladrech perceives Europeanisation as an "incremental process reorienting the direction and shape of politics to the degree that European Community political and economic dynamics become part of the organisational logic of national politics and policy-making" (Ladrech, 1994, p. 69). As far as the changes at the national level are concerned, they shape *domestic structures*, specifically "those components of a polity or society consisting of regularised and comparatively stable interactions (i.e. *institutions, formal and informal, organizational routines and cultures, collective understandings of actors*)." (Risse *et al.*, 2001, p. 4)

Perhaps the most complete definition of Europeanisation is given by Radaelli. In his words, the concept consists of "processes of (a) construction (b) diffusion, and (c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, *ways of doing things*, and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and sub national) discourse, political structures, and public policies" (Radaelli, 2003, p. 30).

Despite the diverse meanings that the concept of Europeanisation acquires within the literature, all of the aforementioned approaches share the assumption that this process is mainly limited to the EU member states. However, recent contributions to the European integration literature have pointed out that the Europeanisation process is influential even beyond the EU's geographic boundaries, particularly with regards to candidate countries. Thus, the concept of Europeanisation differentiates between *traditional Europeanisation*, which is mainly limited to the EU member states, and *enlargement-led Europeanisation*, which affects candidate countries and is

conditionality-driven. Romania went through both phases from candidate for EU membership to the status of current member.

Although Papadimitriou and Phinnemore argue that the new *eastward-looking* Europeanisation literature displays little consensus on how the Europeanisation process is exported to and is transforming the candidate countries (Papadimitriou and Phinnemore, 2003, p. 9), researchers agree that the influence of Europeanisation is also visible in the case of candidate countries. Thus, the EU's imposed conditionality has been the main driving force behind the transformations which occurred in the applicant states (especially in the case of countries which were part of the 2004 and 2007 enlargement waves). This conditionality could be enmeshed in the so-called *Copenhagen criteria*, notably the existence of stable democratic institutions, the functioning of market economy and the availability to adopt the *acquis communautaire*. The Copenhagen political criteria constitute the leverage that made Romania's modernisation and democratisation more plural, multi-cultural and consolidated. Besides the main criteria, states wishing to enter the Union also have to provide stable institutions forging the spread of norms on human rights, protection of minorities, respect for the rule of law and to align themselves to political, economic and monetary objectives of the union. According to Grabbe, the perspective of joining the EU represents a strong incentive for the candidate states to meet the requirements for a potential EU membership and to demonstrate their willingness to fulfil the accession criteria. (Grabbe, 2001, p. 1015)

Schimmelfennig and Sedelmeier hold that the dominant logic underpinning the EU's conditionality is the bargaining strategy of *reinforcement by reward*: the EU provides external stimuli for a candidate country in order to comply with its conditions. (Schimmelfennig and Sedelmeier, 2004, p. 662) Since the day Romania was offered the candidate status, the country has sought to upgrade its legislation in tune with the European standards. Smith believes that conditionality could be of two types, both with considerable leverage: the EU manages the progress made by the candidates and either offers them the chance of carrying on the negotiations (positive conditionality) or it halts the transition to following procedural stages (negative conditionality). (Smith, 1998, p. 256) An example of negative conditionality could have been the delay of Romania's accession to the EU by a year should the country not respect its commitments and continue the reforms.

In one of her studies, Grabbe analyses the changes which occurred in the Central Eastern European Countries (CEECs) in the prospect of membership. Not only are the means used by the EU to influence the reforms in the candidate countries superior to those used in former cases, but also can the applicants barely contribute to the EU policy making from inside. Neither CEECs

applicants nor the group of Romanian and Bulgaria had the possibility of opt-outs from parts of the agenda, such as those obtained by the UK on the Social Chapter, Schengen, or monetary union. (Grabbe, 2003, pp. 303-304) Hence, the EU has often used the *carrot and stick* method to put pressure on Romania to accelerate the administrative reform in order to efficiently harmonise its legislation with the EU *acquis*.

According to Grabbe the factors which contribute to a greater convergence with the EU norms would be the speed of adjustment of the applicant countries to the EU standards owing to their ardent desire to join the club and the openness of the candidate states to take over the EU's *acquis*. Moreover, it could be underlined that the EU's agenda for Romania and Bulgaria has become even broader than for previous applicants and this through additional membership conditions tailored to each country's specific.

Grabbe identifies five mechanisms through which the Europeanisation principles are internalised into the candidate countries: 1) Models: provision of legislative and institutional templates to adopt the existing European laws and norms; 2) Money: aid and technical assistance (to support the costs of the implementation process); 3) Benchmarking and monitoring; 4) Advice and twinning; 5) Gate-keeping. Among these, the latter two are specific to applicant countries: the twinning programme is a mechanism for exporting Europeanisation which forges administrative reform in the candidate countries' domestic structures, and gate-keeping gives access to negotiations and further stages in the accession process according to the progresses already made. (Grabbe, 2003, pp. 312-314) Since the launch of twinning programme in 1998 by the European Commission, Romania has constantly updated and reformed its administrative capacity in the fields of regional policy and Justice and Home Affairs. This owed also to the strong pressure from the Commission which pushed the Romanian government to accelerate the pace of reform in areas where convergence with the *acquis* was lagging behind. As a result, the Europeanising effect generated extensive reforms in the Romanian executive. "Increased interaction with the EU at almost every administrative level as well as the profound importance of the full utilisation and speedy absorption of available EU aid funds have placed Romania's administration under immense pressure to restructure internally and promote greater inter-departmental coordination." (Papadimitriou and Phinnemore, 2003, p. 5)

The fulfilment of trade liberalisation stipulated in the European agreements has also demanded more efficient monitoring mechanisms. "The EU has been consistently promoting through mainly a series of PHARE, ISPA and SAPARD programmes the regionalisation of economic development and the diffusion of planning and implementation competencies to regional and local actors." (Demetropolou, 2002, p. 95)

At the political level, the enhanced relationship with the EU meant additional pressures for adaptation. The institutionalisation of top-level contacts between officials from the EU and Romania brought about the creation of entirely new European integration divisions (e.g. the Romanian Ministry of European Integration) and structures of interaction with the EU (e.g. Joint Parliamentary Committees to deal with the Europe Agreements). Thus, the process of adopting the *acquis* as well as building up the necessary institutions for its implementation had a profound transformative influence – politically, economically, socially, and institutionally – on the domestic setting in our country. This clearly shows that the candidate states are rather *consumers* than *producers* of Europeanisation in contrast with the already member states which largely contribute to the Europeanisation process from a *bottom-up* perspective. (Papadimitriou and Phinnemore, 2003, pp. 6, 9)

## 2. THE DIFFUSION OF EUROPEAN IDEAS ACROSS ROMANIA

The *consumer-producer* dichotomy depicts entirely the relationship between Romania and the EU. Romania seemed to depend on more than one level on the accession. Surveys showed a strong will to join in order to receive an *infusion of democracy* and economic stability and – an essential factor – a confirmation that they belong to the European identity. Romania set itself in the position to absorb European values in the last two decades. Other instruments through which Europeanisation had occurred were the funding of media campaigns with different messages (for instance, environmental protection and non-discrimination) and by the discourse of the EU politicians about Romania. A great role was also played by the periodical reports of the European Commission before accession, showing to a vast audience what else they should achieve in order *to be Europeans*. For instance, this is a good explanation for the fact that corruption – highly discussed in these reports – was ranked by Romanians as the second or third problem of the country (in national surveys), when it wasn't even the tenth more than ten years ago. The Romanian *consumer* society is highly sensitive to what it perceives as *EU values* since it has strived to affirm its European position and identity lost during the communist isolation, considering that it can legitimately be *European* only by joining the EU. This import of values in the process of Europeanisation was facilitated by Romania setting a position toward the EU much like a *student-teacher* relation. A proof of this fact is the huge percentage of EU's popularity (76% in 2004, compared to a 50% of the EU25) and of the population's wish to join the Union before accession. In the context of the EU enlargement in 2004 and 2007, a positive relation was been shown (for the twelve new member states) between Europeanisation and the levels of popularity (enthusiasm) and

trust in the EU before accession. Romania has displayed, over the years, a huge Euro-enthusiasm and this has facilitated its rapid process of Europeanisation. (European Commission, 2004, p. 12) Regarding the EU values embraced by the Romanian population, the 2007 Spring Eurobarometer gives us important clues on the values of the citizens. The economy (27%) and culture (27%) were the issues that most create a feeling of community – according to the responses given in the interviewees. Romanians, in this question, regard economy and culture less important (23 and 21%), but they have the highest score of all the states in ranking history as most important for the feeling of community (30%). (European Commission, 2007a, pp. 64, 67) This would support the hypothesis that the cultural attachment of Romanians to the EU and its values is, to a large extent, a historical one. On the EU level, asked about a diverse range of socio-economic concepts, respondents ranked the highest (as having a positive connotation): free trade, company, competitiveness, flexibility, welfare state. The political values include interest and civic duty, other values being the respect for human rights, gender equality, tolerance, freedom of speech, environmental protection. (European Commission, 2007b) The results for Romania (Autumn 2007) are similar to the European average on the importance of these values. Thus, on most recent surveys, Romania ranks close to the EU average scores on most reported attitudes and values.

Membership of the EU proved one of the main incentives for reforms of the political and legal system in Romania. With the extensive support of the EU, the aspiration of membership effect has been strengthened and led to complex processes of absorption and transformation. Europeanisation became a strong instrument in shaping the country's domestic policies and accelerated the momentum of political and economic reforms. However, Romania has often struggled in its quest towards EU membership. "It has been a long, arduous process, necessitating painful domestic reforms and significant external pressure for change". (Papadimitriou and Phinnemore, 2008, p. 1) And this has been partly due the catastrophic legacies of the Ceaușescu's era which confronted the country in the perspective of EU integration with a difficult task, and partly due to the former communist elite which following the revolution of 1989 was hard to change. The old communists reinvented themselves, changed ideology, became nationalists, remained at the helm of the state and under the guise of implementing reforms bred clientelism and corruption. In many cases, they postponed or artificially implement the reforms just to profit from a precarious economy corroborated with a poor legislation. During the '90s, could not be talked about a free market because the rules were chaotic and the inflation was galloping, reaching international records. The misgovernance, the incapacity of several successive governments to achieve credible long-term commitments regarding economic stability and structural reform and the *stop-go* policies failed to attract foreign direct investment and the process of privatisation did not proceed. The country

adopted a gradualist change (Iliescu's party electoral slogan: *therapy, not shock*) which made it a permanent laggard when it came to the fulfilment of EU's set of conditions for enlargement. This sparked additional economic and political convulsions.

### 3. CONCLUSION

Taken into account the scale of the economic, political and social challenges facing post-communist Romania, "it is remarkable that the country managed to move closer to and ultimately gain entry to the EU". (Papadimitriou and Phinnemore, 2008, p. 142) Hence, what the Romanian experience points out is that the impetus for the economic and political transformations was mainly generated by the engagement of the EU towards including Romania into its structures. And here the Europeanisation mechanism has had a vital role by ensuring a proper background for the EU to develop its policies vis-à-vis Romania. Apart from the dynamics behind enlargement process, stood the motivation of the Romanian political class to push the country to EU-membership, seen as the only way for attaining constant political and economic development as opposed to the potential risk of being relegated to the status of non-member. However, corruption, politicisation of the civil service, domestic political and economic instability continue to be major problems that obstruct both democratic development and economic growth.

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# EXPERIENCE OF ROMANIA IN THE ELABORATION AND IMPLEMENTATION OF THE DOMESTIC POLICIES OF EUROPEAN INTEGRATION: LESSONS FOR THE REPUBLIC OF MOLDOVA.

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**Abstract:** *This article represents an analysis of the experience of Romania in accession and integration of the state into the European Union. It is a tentative to identify Romanian domestic policies of European integration. In order to achieve this objective, the study is focused on analyzing the evolution of Romania accession negotiations, internal and external activities and problems of country's European integration. Another important goal of the article was to identify some important conclusions for the European roadmap of the Republic of Moldova under the experience of Romania. The main lesson for the Republic of Moldova presented by the author is that for a successful European integration of the Republic of Moldova it is essential to prepare the country from inside by formulating and providing in practice concrete tasks and mechanisms in the internal policies of the country.*

**Keywords:** European integration, internal policies, experience, accession, negotiations, lessons.

**JEL Classification:**

## 1. INTRODUCTION

The success of the European Union foundation, the high level of its member states development and the benefits and advantages it offers, made this structure attractive from all points of view. Thus, the idea of integration into the European Union becomes one of the foreign policy priorities of the most post-socialist states, especially as the Western vector manifested itself as a viable political option in the context of a new world order shaping. Simultaneously, the process of European integration highlighted, especially for the Eastern Europe countries, the motivation and

the necessary model for achieving stable democracies, functional market economy, initiation and development of reforms.

At the same time, participation into an integrationist group determines a series of transformations for the participating states, at a more or less extent. The magnitude of these changes varies depending on the stage of integration and may take the form of institutional redefinition and sectional policies adoption.

In general, the external dimension of European integration for the states wishing to obtain the membership perspective is reflected by the European Union's conditionality policy towards them and it is manifested through negotiations based on the requirements submitted by the Union. Thus, the integration process of Romania (as well as of other candidate countries), but especially its accession to the European community, was conducted by the accomplishment of the conditionality elements imposed through the four basic conditions for membership: *political criteria* – guaranteeing democracy and the rule of law; *economic criteria* - the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the European Union; *legal criteria* – the adoption of the entire *acquis communautaire*; and *administrative criteria* - to ensure the institutions stability and the ability to take on the obligations of European Union membership. (Bărbulescu, 2006) These conditions or criteria may be qualified by candidate states as outside conditions which performance requires numerous negotiations, structural dialogues and signing of significant documents on specific areas. But they are to be implemented within the state candidates through the development and implementation of domestic policies of European integration in order to prepare the country for accession to the European structures. In this context, it is important, especially for the Republic of Moldova, to analyze the way in which Romania as a candidate country has established a program for accession preparation and for fulfillment of the obligations that implies the access to the European single market structures and activities.

## 2. PRACTICE OF ROMANIA EUROPEAN INTEGRATION

Romania, following the example of its neighbors in Central Europe (Czech Republic and Slovakia, Hungary and Poland) definitely expressed its desire to return to Europe, through integration into NATO and the European Union, viewing this vector as a fundamental objective in the post-socialist reorientation of its relationship with Western countries, to which Romania is connected by strong cultural and civilization traditions. Although it's initial approach was more a formal one, the Romanian state being far from the Copenhagen criteria, the first results of the new

guidelines were produced in 1990 with the signing of the Trade and Cooperation Agreement with the EEC. In the second stage, Romania has reached a level of political and institutional development that made possible its acceptance by the European Union as an associate member when the Europe Agreement entered into force in early 1995 (Filipescu, Fuerea 1996). This agreement established legal and institutional framework of the Romanian-EU relations and had as a primary objective the preparation of Romania's EU accession. It was also a catalyst for developing and finishing Romania's transition process to a new political and economic system with the assistance of the Community. At that time, bearing in mind that the preparation for membership requires a national effort, political parties and academia representatives of Romania elaborated the Snagov Declaration (Nicolaescu, 1996) in which the "*National Strategy for preparation of Romania's accession to the European Union.*" was stated. Thus, the focus of the state was placed on achieving the goal of membership from the initial phase of the European integration process. However, after considering Romania's application for EU membership, the European Commission Opinion from 1997 was unfavorable to Romania, reckoning that it could not cope with the accession and the medium term economic requirements. In response, the Romanian government launched the *National Programme for the adoption of the acquis communautaire*. In this document, Romania announced its intentions to create a functioning market economy, to implement tighter border controls, to pursue strengthening of legislative framework, etc. But the Romanian government's modest achievements in the immediately following period disappointed the European Union. The report presented by the European Commission in 1998 highlighted poor economic performance, problems of small and medium enterprises development and of the legal system strengthening and public administration reform. (Ivan, 2007)

The 1999 Helsinki event was significant in Romania's history, when the European Council decided to hold bilateral intergovernmental conferences on starting negotiations with Romania, Slovakia, Latvia, Bulgaria and Malta, which made it possible officially to launch negotiations for accession of Romania to the European Union in 2000.

In the first half of 2000, during the Portuguese presidency of the European Union, Romania has opened and provisionally closed five chapters of negotiations regarding Small and Medium Sized Enterprises, Science and Research, Education, Training and Youth, External Relations and Common Foreign and Security Policy. (Neculau, Constantine, 2002) Unfortunately, poor economic performance, lack of legal and economic framework in compliance with the requirements of the European Union had removed the accession of Romania. At the same time, the negotiation process revealed a lack of training of Romanian institutions, a lack of specialists in different areas of

integration, poor coordination between ministries and a failure to submit position papers in accordance to deadlines. (Daianu, Vranceanu, 2002)

The new government established as a result of elections from autumn 2000, sought to accelerate and intensify preparations for accession to the EU through institutional changes - meaning the core of the national system of coordination of the European integration activity, creating the *Ministry of European Integration* whose functions were to elaborate strategies, to regulate, to represent, to emanate state authority, and to administrate, manage and coordinate the *National Delegation for Negotiating Romania's Accession to the EU*. The *National Delegation* comprised sectional delegations for every chapter of negotiations. *National Program for Romania's Accession to the EU* updated in 2001 became the instrument for the implementation of pre-accession strategy launched by the Agenda 2000 and had as overall objective the achievement of the basic conditions for membership set by the Copenhagen European Council. This program also had as an intermediate target the fulfillment of the priorities of the *Partnership for Accession EU - Romania*. (National Programme for Romania's Accession to the EU, 2001) In fact, this program established the Romanian state's domestic duties in a strict accordance with the EU requirements.

The new negotiation strategy for Romania's EU accession was based particularly on the global negotiation process approach. The main accent shifted from the so - called light chapters of negotiations to those with an economic and social impact. Romania has focused its efforts on key chapters of negotiations related to the four freedoms (Free Movement of Goods, Free Movement of Capital, Free Movement of Services and Free Movement of People), chapters which had not been approached at all by the end of 2000. There also have been approached very difficult chapters of negotiations, such as Environment, Agriculture, Regional policies and Financial Control (Mazilu, 2005)

The defining elements of the negotiation strategy for 2001 consisted therefore in predominantly quantitative approach of this process, being concentrated on analyzing of the entire *acquis communautaire*. External successes manifested themselves through an extensive consultation process with the European Commission, Member States and candidate countries' negotiating teams. The new strategic and institutional approach led to a substantial progress in the negotiation process. Thus, in 2001, a range of complementary position papers were drafted and officially sent to EU. (Apostol, 2002) As a result, at the end of that year, Romania has provisionally closed 9 chapters of negotiations out of 17 opened chapters. The remove of barriers of free movement of Romanians in the Schengen area in early 2002, was also a positive sign, indicating that Romania started to make progress, especially in adaptation of the legislation compatible with the European law in the field of border control. For the period of 2002-2003, the main objective was to open all negotiation

chapters, provisionally to close most of them, on the basis of the advanced accession preparations and fulfillment of commitments made during the negotiations. In this context, the “*Plan of priority actions for preparing of accession to the European Union in December 2003 - December 2004 period.*” has been developed. It was a detailed road-map of Romania for that time and identified a number of key priorities such as: acceleration of public administration reform, judicial system reform, fight against corruption, improving of the business environment, strengthening the administrative capacity to implement the *acquis communautaire* in the agricultural field and environmental protection, border security etc. (Priorities in preparation for joining the European Union in December 2003 - December 2004, 2003)

Romania managed to conclude EU accession negotiations in December 2004, but the success was accompanied by 11 conditions relating to the need of continuation of judicial reform, fight against corruption, reducing steel production, environmental protection, etc. For this reason, the Accession Treaty from 2005 contained a specific safeguard mechanism. There had also been started up a comprehensive monitoring process on Romania's preparations and results by the time of its accession. Progress reports from 2005 and 2006 reported that Romania was able to remove areas of serious concern, which could lead to the postponement of accession for 2008, particularly due to the progress it has made in combating corruption and border management. For the first time, corruption did not figure among the areas of serious concern of the Commission. It is commonly accepted that the accession negotiations have accelerated and structured the process of modernization and development of the country, by boosting the domestic process of accession preparation. As it can be observed, the consolidation of the rule of law through judicial reform, fight against corruption and ensuring of freedom of expression, strengthening of free competition (in order to allow the development of investment and achievement of a favorable business climate), preparation of the administrative staff, that insure the European law enforcement, and investment in research, development and environmental protection remained the main priorities throughout the accession negotiations. Since some problems remained after accession too, in its process of integration into the European community Romania has been under threat of safeguard clauses being monitored until now mainly in justice and home affairs, taking into account the existence of unresolved corruption cases. So, the experience of Romania regarding European integration shows that this process continues after the accession through the continuity of reforms and implementation of European standards, as integration presumes besides accession a more complex process of returning to Europe, not only from political, economic and legal point of view, but a socio-cultural one as well. Further European integration of Romania is demonstrated by the post-accession measures aimed primarily at the new Member State's ability to adapt in a context in which integration issues come to

be significantly different from those of familiarization with the requirements of the *acquis* requirements that are specific to accession negotiations. These measures, besides the recovery of areas related to agricultural funding, food safety, judicial reform, fight against corruption and the continuation of the *National Reform Programme* implementation, as European Commission in its latest assessment recommends (Country-specific recommendations, 2009), also include the need for accommodation of the population to the new status of being European citizens.

The continuous integration of the country is manifested by the extensive training to achieve two major objectives, namely the accession to Euro zone and the Schengen area, Romania being regularly assessed in this field by the European structures.

### 3. CONCLUSIONS FOR THE REPUBLIC OF MOLDOVA

Studying the experience of the European integration of Romania it is possible to draw some lessons for the Republic of Moldova. The main conclusion which emerges from the study lies in the fact that Romania was mainly oriented towards accession and negotiations with the European Union and was less focused on the development and implementation of European integration domestic policies. As a result, there have been created a number of problems that are still present in Romania and in its process of continuous integration and accommodation in the European Union. Thus, it becomes clear that the Republic of Moldova must prepare the country for European integration from inside.

If a parallel in the European integration preparation of Romania and the Republic of Moldova at the national level is to be drawn, it is necessary to mention that in Romania case for accession preparation to the European Union, besides the *Ministry of European Integration National Delegation for Negotiating Romania's Accession to the EU*, there have been created a number of national institutions. Thus, Romania has established the Executive Committee for European Integration, Inter-Ministerial Committee for European Integration, European integration departments in ministries and other public institutions, Transparency Committee that monitor the use of EU funds, the Permanent Mission of Romania under the European Union, European Institute of Romania.

In the case of the Republic of Moldova, European integration from the beginning has been interpreted as a task of foreign policy, oriented especially to the intensification of contacts with the European community and issuing some messages in this direction. Thus, this mission was mainly of the *General Department for European Integration* within the Ministry of Foreign Affairs of the Republic of Moldova. Later, to strengthen national institutions work and initiative on European

integration and to promote the strategy of accession to the European Union, according to Government Resolution of 2003, the *Department of European Integration* was created within the Ministry of Foreign Affairs. (Osoian, 2008) Simultaneously with the creation of this subdivision, similar departments were created in all ministries and departments. Thus, in 2005, the name of Ministry of Foreign Affairs of the Republic of Moldova, was completed with the phrase „*and European Integration*”. Awareness of the true trajectory of Moldova's European integration has developed slowly. Already in 2002, according to the presidential initiative, the *National Commission for European Integration* was created. Through its basic tasks there was that of developing the European Strategy for European Integration of the Republic of Moldova. But only in 2005, the above mentioned strategy was adopted in which, in fact, practically all the problems of development of the Republic of Moldova have been included, and the country's European future depends on their solution. As a domestic document, the strategy aimed at preparing the country for accession to the European community, viewing the integration as a fundamental national interest. Therefore it includes, for each domain of activity, the analysis of the legislative background of the Republic of Moldova, the analysis of the institutional framework, the formulation of existing problems, and short and medium term priorities. (*European Strategy of the Republic of Moldova*, 2005). However, this strategy can not be regarded as an effective and essential one for the European preparation of the Republic of Moldova, being too general and having no concrete methods for achieving the purposed objectives.

There are many reasons which could explain these circumstances. But the most important one would be the promotion for a long time of a „Moldovan policy of European integration”, which can be considered as an inconsistent, declarative and propagandistic one combined with a lack of political will that Chisinau had during communist government. (Vasilescu, 2004) Another feature that denotes the lack of initiative of Chisinau is that everything that relates to Moldova's European integration mainly comes from the European structures, that is the Partnership and Cooperation Agreement, Action Plan Moldova-EU, Neighborhood Policy, the Eastern Partnership. It is true that with establishment of a new government in Chisinau, the Alliance of European Integration, there have been made important external actions. Since January 2010 it is negotiating with the European Union the Association Agreement and making significant efforts to obtain the visa liberalization and sign the Deep and Comprehensive Free Trade Agreement. But the most important thing lies in the need for combining these external actions with the domestic actions.

So, firstly it is necessary to develop a National Plan for preparation of Moldova's accession to the European Union, which would determine its own path forward European integration vector. Secondly, it is necessary to create a highly trained team consisting of experts in various fields of

European integration, in order to avoid the problems faced by Romania during the accession negotiations due to unprepared Romanian institutions, lack of specialists and insufficient coordination between ministries. Finally, it is necessary to elaborate the National Policy of European integration and a Strategy for European integration of the country that will include not only the country's modernization, but also preparation of the population for the status of European citizens. In this context, according to Professor Grigore Vasilescu, a European Training Program would have been welcomed as a particularly important task for a wide and complex European education of population, which is strictly necessary so that to change the people's mentality and consciousness, without that it is impossible to go to Europe or bring Europe home. A program of this kind is significant for creating the basic mechanisms needed to carry out practical tasks of European integration. (Vasilescu, 2008)

Therefore, analyzing the practical realization of the European integration objectives by the Romania as well as by other EU Member States, Moldova will be able to avoid gaps and shortcomings faced by them. Correct formulation of domestic policies of European integration, the creation of mechanisms for their achievement and strengthening of the relations with Member States of the European Union will indisputably contribute to elaboration of a more effective action plan for Moldova's European integration.

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# THE DYNAMICS OF FOREIGN DIRECT INVESTMENTS IN CENTRAL AND EASTERN EUROPE UNDER THE IMPACT OF INTERNATIONAL CRISIS OF 2007

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**Abstract:** *As an engine for economic development of CEE countries, FDI inflows have contributed to creating new jobs and access to modern technologies; have had positive effects on balance of payments and state budget revenues. The purpose of this article is to highlight the implications of international financial and economic crisis of 2007 on FDI in CEE countries. Also, we realized a comparative approach of the factors that influence investors' decisions in Czech Republic, Hungary, Poland, Romania, Slovakia and a SWOT analysis of FDI in Romania at the end of 2009. The second part of the article represents an econometric analysis using SPSS of FDI impact on GDP and unemployment rate on the example of Romanian economy during 1991-2009. The fundamental hypothesis of econometric analysis is the following: it is a direct link between FDI and GDP, respectively, an inverse link between FDI and unemployment rate.*

**Keywords:** FDI, unemployment rate, GDP, financial crisis, CEE countries

**JEL Classification:** G01, E22, E24

## 1. INTRODUCTION

Foreign direct investments (FDI) have become a primary factor in the economic development and modernization of Central and Eastern Europe countries (Kornecki, 2006). According to the IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy -direct investor in an enterprise that is resident in another economy- the direct investment enterprise (Duce, 2003, p.2).

We can affirm that the direct foreign investments represent a phenomenon with a worldwide importance because (Voinea, 2010):

- they fill a significant weighting in the economic activities made worldwide.

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- they have been marked by a big dynamics which coincides with the extending and recession process of the globalization.
- they allow the worldwide development finance's, in the developed countries and also in developing ones.

Among trends in FDI evolution in CEE countries are noted:

- the orientation, especially, in the late 1990s and early 2000s, to service industries (banking, IT, telecoms etc.) and the recent move back to traditional manufacturing;
- reinvesting profits in these countries, detrimental greenfield and brownfield investment.

## 2. THE IMPLICATIONS OF INTERNATIONAL ECONOMIC AND FINANCIAL CRISIS ON FOREIGN DIRECT INVESTMENTS IN CEE COUNTRIES

During 2003-2008, FDI inflows in CEE countries (Czech Republic, Hungary, Poland, Slovakia and Romania) recorded an upward trend, rising from US\$30 billion to US\$ 155 billion (PriceWaterHouseCoopers, 2010). Due to this issue, the CEE region is considered, after Western Europe and China, the most attractive foreign investment locale. A key feature of FDI projects in CEE is unemployment rate reducing.

Many different factors influence the investor's decision of which country to choose, according to the nature of the project. There are conflicting views: while many investors do not consider incentives as a primary factor, in other business their availability may influence investors' decisions in one country's advantage. Also, low labour costs and low tax rates are important factors, although experts believe that labour costs will align with European Union standards and variations in tax rates are difficult to predict.

**Table 1- A comparative analysis of factors which influence investors' decisions on the example of CEE countries**

|                          | Czech Republic  | Hungary   | Poland  | Romania   | Slovakia                     |
|--------------------------|---|---|---|---|------------------------------|
| <i>Real estate costs</i> |   |   |   |   |                              |
| Cost of land             | This will very much depend on the region of the investment and the size of the site.      |   |   |   |                              |
| Construction costs       | These will very much depend on the nature of the project.                                 |   |   |   |                              |
| Taxes                    | Is paid an annual fee and it depends especially on the type of real estate and territory. | Upon the purchase of land, is paid a transfer tax of 10%, unless the buyer of the land undertakes the construction of residential property within | Is paid an annual fee and it depends on various factors: on type, location, purpose and use of real estate. | Notaries' fees: between 0.5%- 2.5% of the price. Is paid an annual fee and it depends especially on the type of real estate and | Purchasing the land is free. |

|  |   |  |   |  |   |
|--|---|--|---|--|---|
|  |   | four years.  |   | territory.   |   |
| <b>Taxation</b>  |   |  |   |  |   |
| Corporation tax  | 19%   | 19%  | 19%   | 16%<br>Certain small companies pay tax of 3% of their turnover. A minimum is imposed on companies if the annual tax payable is less than the minimum tax fixed by the tax authority. | 19%   |
| VAT (general rate)   | 20%   | 25%  | 23%   | 24%  | 20%   |
| Export tax   | VAT payable on import from a non-EU country; import from an EU country comply EU VAT rules. |  |   |  |   |
| Personal income tax rate   | 12.5%   | 17% -32%   | 18% – 32%   | 16%  | 19%   |
| <b>Availability of EU Structural and Cohesion Funds</b>  |   |  |   |  |   |
| Amount allocated for period 2007-2013(EUR million)   | 26,692  | 25,307   | 67,284  | 19,667   | 11,588  |
| <b>Labour issues</b>   |   |  |   |  |   |
| Monthly minimum wages (euro) 2009  | 305   | 270  | 281   | 153  | 296   |
| <b>Availability of workforce</b>   |   |  |   |  |   |
| Recorded Unemployment (12.2010)  | 7.7%  | 11.8%  | 9,7%  | 7,3% (09.2010)   | 14,5  |
| <b>Access to target market(s)</b>  |   |  |   |  |   |
| CEE countries enjoy geographical benefits, being located in the centre of the pan-European market. |   |  |   |  |   |
|  | The Czech Republic borders the Western European markets of Germany and Austria.             | Hungary, also, has a good opening to Western Europe. | Poland has good access to Western European markets of Germany and the Baltic Sea. | Romania is adjacent to other EU states, and has direct access to the Black Sea and to the Danube .   | Slovakia is adjacent with other three CEE countries and its capital city is very close to Vienna. |
| <b>Economic stability</b>  |   |  |   |  |   |
| Real GDP growth rate 2009  | -4,1%   | -6,7%  | 1,7%  | -7,1%  | -4,8%   |
| GDP per  | 82  | 65   | 61  | 46   | 73  |

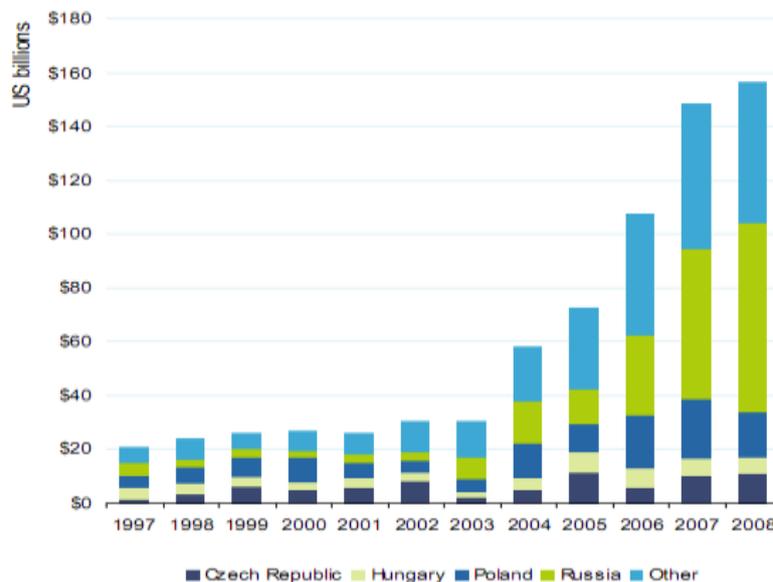
|   |      |       |      |      |      |
|---|------|-------|------|------|------|
| capita in Purchasing Power Standards (PPS) 2009 |      |       |      |      |      |
| Inflation rate 12.2010                          | 1,2% | 4,7%  | 2,7% | 6,1% | 0,7% |
| Central bank interest rates - Annual data 2009  | 2%   | 7,25% | 5%   | 8%   | -    |

Source: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-30-09-149/EN/KS-30-09-149-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-30-09-149/EN/KS-30-09-149-EN.PDF), [www.worldwide-tax.com](http://www.worldwide-tax.com), [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-01102010-AP/EN/3-01102010-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-01102010-AP/EN/3-01102010-AP-EN.PDF), <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tsieb060&tableSelection=1&footnotes=yes&labeling=labels&plugin=1> [accessed on 12.01.2011]

After a spectacular increase in FDI inflows, during 2009, the implications of international economic crisis had a different impact on CEE countries: while Estonia, Latvia and Lithuania have registered a significant contraction in economic activity in 2009; Bulgaria and the Czech Republic faced a slight decrease of less than 5% of output; Poland's economy registered an uptrend in 2009.

In 2008, Russia recorded the largest increase in value of FDI.

**Figure 1- The evolution of FDI inflows in CEE countries (US billions, 1997-2008)**



Source: Allen & Overy (2008) *Foreign Direct Investment in Central and Eastern Europe: A case of boom and bust?*, PriceWaterHouseCoopers, accessed on December 2010 at [http://www.pwc.com/en\\_CZ/cz/tiskove-zpravy-2010/fdi-in-cee-final-report-march10.pdf](http://www.pwc.com/en_CZ/cz/tiskove-zpravy-2010/fdi-in-cee-final-report-march10.pdf)

The figure above shows that, between 1990 and 2008, the favorite destination for FDI was Russia. After, in 2008, Russia recorded the largest increase in value of FDI, in 2009, their value was

reduced by 48% compared with the same period of last year, because of the credit crunch in real estate and the collapse in the extractive industries.

Poland was the second favorite destination of investors in the region, fields like coal, oil, natural gas and real estate, which presented a particular interest, but the international crisis affected the financial sector and FDI value experienced a significant decline in 2009.

The Czech Republic was less affected by the economic recession, FDI value declined by 19% in 2009 compared with previous year. One explanation would be the fact that, in 2008, the key sector for investments was the automotive sector which totaled almost US\$ 1billion.

In Slovakia, FDI rose by 55% in 2009, due to an announced US\$ 2.3 billion real estate investment by Tri Granit, which accounted for more than 40% of total Slovakian FDI inflows in 2009.

Latvia and Slovenia have been the most affected, the FDI value recorded a decline at 71% respectively 70% (PriceWaterHouseCoopers, 2010), because of the fact that real estate sector enjoyed the bulk of FDI inflows.

Country analysis shows that real estate and extractive industries are the areas preferred by investors in the region, these two sectors accounted for more than a third of total FDI inflows between 2003 and 2009. The following table shows the FDI evolution, during 2009, in twenty largest sectors, and we note that FDI inflows experienced a significant decline (71% in real estate, 81% in automotive component, 82% in consumer electronics).

**Table 2- The FDI evolution in twenty most important sectors in CEE region (%)**

| Sector                        | Annual change in FDI inflows (2009) | Share of regional FDI value (2003-2009) |
|-------------------------------|-------------------------------------|---|
| Real estate                   | -71%                                | 25%                                     |
| Coal, oil and natural gas     | -52%                                | 13%                                     |
| Transportation                | -34%                                | 6%                                      |
| Alternative energy            | 31%                                 | 6%                                      |
| Automotive equipment          | -67%                                | 5%                                      |
| Metals                        | -70%                                | 5%                                      |
| Food and tobacco              | -16%                                | 5%                                      |
| Building materials            | -60%                                | 5%                                      |
| Wood products                 | -68%                                | 4%                                      |
| Automotive components         | -81%                                | 3%                                      |
| Paper, printing and packaging | -49%                                | 3%                                      |
| Electronic components         | 43%                                 | 2%                                      |
| Consumer products             | -52%                                | 2%                                      |
| Consumer electronics          | -82%                                | 2%                                      |
| Hotels and tourism            | -17%                                | 2%                                      |
| Communications                | 14%                                 | 1%                                      |

|                         |      |    |
|-------------------------|------|----|
| Industrial machinery    | -34% | 1% |
| Warehousing and Storage | -42% | 1% |
| Chemicals               | 171% | 1% |
| Rubber                  | -79% | 1% |

Source: Allen & Overy LLP (2008) *Foreign Direct Investment in Central and Eastern Europe: A case of boom and bust?* processed after FDI Intelligence from the Financial Times Ltd,

Despite a significant decline, sectors like electronic components, alternative energy or chemicals have enjoyed a positive trend of FDI value.

### 3. ANALYSIS OF THE IMPACT OF FOREIGN DIRECT INVESTMENT ON GDP AND UNEMPLOYMENT RATE IN ROMANIA DURING THE PERIOD 1991-2009

Since 1991 it has been an upward trend of FDI, primarily due to investment flows from Europe to Romania as a consequence of proximity of accession and the improvement of country's rating and economic performance.

A SWOT analysis of FDI in Romania, at the end of 2009, presents the situation as follows:

| Strengths  | Weaknesses   |
|--|--|
| <ul style="list-style-type: none"> <li>• functional market economy</li> <li>• favorable geographic position- gateway to Europe</li> <li>• natural resources</li> <li>• a great consumer market , numerous, cheap and with a good education labor force.</li> </ul> | <ul style="list-style-type: none"> <li>• risen inflation rate comparing to Europe's average</li> <li>• inadequate and degraded transport infrastructure,</li> <li>• diminishing yield,</li> <li>• risen long-term unemployment rate between youth and adults.</li> </ul>                   |
| Threats  | Opportunities  |
| <ul style="list-style-type: none"> <li>• a risen level of the taxation for the enterprises,</li> <li>• degraded infrastructure,</li> <li>• the migration of the developing sectors to cheaper locations, youth and specialist's emigration.</li> </ul>             | <ul style="list-style-type: none"> <li>• the seventh EU's member state from the point of view of the size,</li> <li>• renewable energetic resources,</li> <li>• catching location for FDI,</li> <li>• a bigger mobility for the labor force inside the European Union's market.</li> </ul> |

We analyze the impact of FDI on GDP and unemployment rate in Romania during 1991-2009 using data from the following table:

**Table 3- The evolution of FDI, GDP and unemployment rate in Romania (1991-2009)**

| Year | FDI (volume- Euro millions) | GDP (volume- Euro billions) | Unemployment rate (%) |
|------|-----------------------------|-----------------------------|-----------------------|
| 1991 | 0.035                       | 25.10                       | 1.80                  |
| 1992 | 0.059                       | 15.10                       | 5.40                  |
| 1993 | 0.081                       | 22.60                       | 9.20                  |
| 1994 | 0.280                       | 25.30                       | 11.00                 |

|      |       |        |       |
|------|-------|--------|-------|
| 1995 | 0.320 | 27.40  | 10.00 |
| 1996 | 0.210 | 28.20  | 7.80  |
| 1997 | 1.070 | 31.30  | 7.50  |
| 1998 | 1.800 | 37.40  | 9.30  |
| 1999 | 0.980 | 33.50  | 11.40 |
| 2000 | 1.140 | 40.30  | 11.20 |
| 2001 | 1.290 | 44.90  | 9.00  |
| 2002 | 1.210 | 48.50  | 10.20 |
| 2003 | 1.940 | 52.60  | 7.60  |
| 2004 | 5.180 | 60.80  | 6.80  |
| 2005 | 5.210 | 79.30  | 5.80  |
| 2006 | 9.060 | 97.20  | 5.40  |
| 2007 | 7.250 | 112.10 | 4.30  |
| 2008 | 9.100 | 137.00 | 4.40  |
| 2009 | 3.490 | 30.50  | 7.80  |

Source: INSSE

Foreign investments represented an engine of economic recovery, a generator of sustainable economic growth with beneficial effects in Romania during 1991-2009. In support of this statement, I identified the degree of correlation between the level of foreign direct investments and GDP, and between foreign direct investments and unemployment rate by calculating the correlation coefficient  $\rho$  using SPSS. The correlation coefficient may take a value between -1 and +1, if the correlation coefficient has a value closer to -1 or +1, the relationship between those two variables is closer, while its value is more close to 0 this indicates the absence of a link between the two variables. (Jaba and Grama, 2004, p. 233).

Based on the stated sample, the relationship between variables can be estimated by simple linear regression model equation of the form  $Y = a + b \cdot X$ , where  $Y$  will be independent variable FDI,  $X$  will be dependent variable GDP or unemployment rate,  $a$  and  $b$  are the values of model parameters of the regression estimators.

**Case 1:** The variables considered are:

- the value of foreign direct investments (FDI)- independent numerical variable ( $X$ )
- GDP- dependent numerical variable ( $Y$ )

Pearson correlation coefficient  $\rho=0.935$  which shows that the correlation between FDI and GDP, in Romania, is direct and strong, the coefficient is very close to 1 (which corresponds to a perfect correlation).

### Correlations

|     |                     | FDI      | GDP      |
|-----|---------------------|----------|----------|
| FDI | Pearson Correlation | 1        | .935(**) |
|     | Sig. (2-tailed)     |          | .000     |
|     | N                   | 19       | 19       |
| GDP | Pearson Correlation | .935(**) | 1        |
|     | Sig. (2-tailed)     | .000     |          |
|     | N                   | 19       | 19       |

\*\* Correlation is significant at the 0.01 level (2-tailed).

For testing the significance of the correlation coefficient, we use the T test. The properly Sig. value is (Sig = 0.000) < ( $\alpha = 0.01$ ) highlights that we obtained a significant correlation coefficient to a threshold of 0.000, so are less than 1% chance of error if we say that between the two variables it is a significant correlation.

The estimated regression equation is **FDI=23.139+10.250\*GDP.**

### Coefficients (a)

| Model |            | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. | 95% Confidence Interval for B |             |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|-------------------------------|-------------|
|       |            | B                           | Std. Error | Beta                      |        |      | Lower Bound                   | Upper Bound |
| 1     | (Constant) | 23.139                      | 3.725      |                           | 6.212  | .000 | 15.280                        | 30.998      |
|       | FDI        | 10.250                      | .942       | .935                      | 10.886 | .000 | 8.263                         | 12.236      |

a. Dependent Variable: GDP

Coefficient b=10.250 correspond to a direct (positive) link between the variables considered. A growth of FDI with a unit determines an increase of GDP on average with 10.250 billion euro, in Romania. For testing the parameters of the regression model, we use the T test. Value (Sig = 0.000) < ( $\alpha = 0.05$ ) shows that  $\beta$  (slope) corresponds to a significant link between the two variables. F test has a high value (F = 118.504) and the Sig. value properly F statistics is low: (sig = 0.000) < ( $\alpha = 0.05$ ) which means that the independent variable – FDI explains the variation of dependent variable- GDP.

### ANOVA (b)

| Model |            | Sum of Squares | df | Mean Square | F       | Sig.    |
|-------|------------|----------------|----|-------------|---------|---------|
| 1     | Regression | 17581.164      | 1  | 17581.164   | 118.504 | .000(a) |
|       | Residual   | 2522.103       | 17 | 148.359     |         |         |
|       | Total      | 20103.267      | 18 |             |         |         |

a. Predictors: (Constant), FDI

b. Dependent Variable: GDP

The coefficient of determination  $R^2=0.875$  (R Square Model Summary table) shows that 87.5% of GDP variation can be explained by FDI value made in Romania during 1991-2009.

**Model Summary (b)**

| Model | R       | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---------|----------|-------------------|----------------------------|
| 1     | .935(a) | .875     | .867              | 12.18027                   |

a. Predictors: (Constant), FDI

b. Dependent Variable: GDP

**Case 2:** The variables considered are:

- the value of foreign direct investments (noted by FDI)- independent numerical variable (X)
- the unemployment rate (noted by Ur) - dependent numerical variable (Y).

Pearson correlation coefficient  $\rho = -0.496$  shows an inverse correlation between variables.

**Correlations**

|                   |                     | FDI      | Unemployment rate |
|-------------------|---------------------|----------|-------------------|
| FDI               | Pearson Correlation | 1        | -.496(*)          |
|                   | Sig. (2-tailed)     |          | .031              |
|                   | N                   | 19       | 19                |
| unemployment rate | Pearson Correlation | -.496(*) | 1                 |
|                   | Sig. (2-tailed)     | .031     |                   |
|                   | N                   | 19       | 19                |

\* Correlation is significant at the 0.05 level (2-tailed).

The properly Sig. value is (Sig = 0.031)  $< (\alpha = 0.05)$  highlights that we obtained a significant correlation coefficient to a threshold of 0.031, so are less than 5% chance of error if we say that between the two variables it is a significant correlation.

The estimated regression equation is **FDI= 8.811-0.433\*Ur.**

**Coefficients (a)**

| Model |            | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. | 95% Confidence Interval for B |             |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|-------------------------------|-------------|
|       |            | B                           | Std. Error |                           |        |      | Lower Bound                   | Upper Bound |
| 1     | (Constant) | 8.811                       | .726       |                           | 12.134 | .000 | 7.279                         | 10.343      |
|       | FDI        | -.433                       | .184       | -.496                     | -2.358 | .031 | -.820                         | -.046       |

a. Dependent Variable: unemployment rate

Coefficient  $b=-0.433$  correspond to an inverse (negative) link between the variables considered. A growth of FDI with a unit determines a decrease of unemployment rate on average

with 0.433% in Romania. Value (Sig = 0.031) < ( $\alpha = 0.05$ ) shows that  $\beta$  (slope) corresponds to a significant link between the two variables. The Sig. value properly F statistics is (sig = 0.031) < ( $\alpha = 0.05$ ), which means that the independent variable – FDI explains the variation of dependent variable- unemployment rate.

**ANOVA (b)**

| Model |            | Sum of Squares | df | Mean Square | F     | Sig.    |
|-------|------------|----------------|----|-------------|-------|---------|
| 1     | Regression | 31.350         | 1  | 31.350      | 5.561 | .031(a) |
|       | Residual   | 95.842         | 17 | 5.638       |       |         |
|       | Total      | 127.192        | 18 |             |       |         |

a. Predictors: (Constant) FDI

b. Dependent Variable: unemployment rate

The coefficient of determination  $R^2 = 0.246$  (R Square Model Summary table) shows that 24.6% of the variance in the dependent variable (unemployment rate) can be explained by changes in the independent variable (FDI).

**Model Summary (b)**

| Model | R       | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---------|----------|-------------------|----------------------------|
| 1     | .496(a) | .246     | .202              | 2.37439                    |

a. Predictors: (Constant), FDI

b. Dependent Variable: unemployment rate

#### 4. CONCLUSION

The CEE region has experienced an uptrend FDI inflow since 2003, but it was halted by the global recession. While Latvia and Slovenia have been the most affected (the FDI value recorded a decline at 71% respectively 70%), in Slovakia, FDI rose by 55% in 2009. Country analysis shows that real estate and extractive industries are the areas preferred by investors in the region.

In terms of development, there is a general agreement of the potential benefits of Foreign Direct Investment. We illustrated this point making an econometric analysis on the example of Romanian economy, using a linear regression model. The relationship between GDP Growth and the increase of the relationship between FDI and GDP (FDI/GDP (%)) can be clearly established. The estimated regression equation is  $FDI = 23.139 + 10.250 * GDP$  and Pearson correlation coefficient  $\rho = 0.935$ .

Also, the coefficient of determination shows that 87.5% of GDP variation can be explained by FDI value made in Romania during 1991-2009. The relationship between FDI and unemployment rate can be estimated by the following regression equation  $FDI = 8.811 - 0.433 * Ur$ . Pearson

correlation coefficient  $\rho = -0.496$  shows an inverse correlation between these variables. Unlike the previous case, the coefficient of determination  $R^2 = 0.246$  shows that 24.6% of the variance in the dependent variable (unemployment rate) can be explained by changes in the independent variable (FDI) in Romania.

Foreign direct investments have a significant impact on pattern of trade in many income-enhancing directions, by improving a country's comparative advantages and enhancing its competitiveness.

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# GLOBALIZATION IMPACT ON THE LOCAL AND REGIONAL DEVELOPMENT POLICIES: REPUBLIC OF MOLDOVA CASE

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**Abstract:** *This article focuses upon the idea of globalization and its influence on building more progressive local and regional development strategies, taking into consideration the local and regional circumstances of Republic of Moldova. An interesting task is to determine where the top-down and central control stops, as well as where local autonomy begins and the way a strong regional development of country may be built. All this due to the fact that currently a strong state, a developed and competitive one is decentralized, and should have strong local communities which grow dynamically and solve local problems quickly.*

**Key-words:** regional development, globalization, good governance, local public administration authorities, decentralization.

**JEL classification:** R58, H7

Globalization, and the increased exposure to international competition that it has supposedly induced, has led to expectations of institutional convergence in, among other things, local and regional development policy and the politics surrounding it. Improving the quality of governance is essential for economic development. Policies on regional development and decentralized institutions, active local public authorities have the most positive and measurable effects on improving governance. The importance of good governance has now become an important issue, with multilateral organizations and donors increasingly basing their aid and loans on the condition that policies that ensure good governance are adopted.

In the world of governments, when organizations become overly centralized and controlling, there is a lack of initiative and energy by the collective workforce, productivity suffers, and sooner or later anarchy seems to arise to overthrow those in control who have not responded to the needs and preferences of the governed. Ironically, control breeds chaos. (Robert E. Hall, 2004). An important example for this is that the centralized governance structure led to the collapse of the

Soviet Union. Actually, for post-Soviet states this type of governance represents the legacy which determined the lack of autonomy, weak communities and inefficient local public authorities (unable to solve local problems quickly). When analyzing how the economic crisis affected especially post-Soviet countries (and Republic of Moldova in particular), we understand that these countries are impacted so severely by the crisis because the necessary reforms were not conducted in time.

It should be mentioned that globalization opens up opportunities for development and the national strategies are those important documents which should be designed to take advantage of the potential and meet the requirements associated with greater integration into the world economy. Usually, the Government's regional policy objectives are to maintain the main features of the settlement pattern and to release the growth potential in all parts of the country. The policy initiatives to achieve regional policy goals should also strengthen the country's international competitiveness.

External factors, especially globalization, keep influencing countries and local communities in a variety of ways. Changing investment patterns, modernization of production methods, fluctuation of market requirements and prices significantly threaten geographic areas that are difficult to reach. If joint efforts on the part of national, regional and local administration, national and international support organizations, local industrial associations, and local entrepreneurs are established in order to focus on developing revitalization and restructuring strategies then a community has a chance to make these threats into opportunities for development. In the same time, principles and values of local and regional development reflect the relations and balances of power between state, market, civil society and are socially and politically determined within localities and regions.

Republic of Moldova alongside with other CIS countries currently faces the challenge to improve its competitiveness in light of the major structural transformations taking place in the world economy. The administrative-territorial reform in favor of decentralization is believed to unlock the country's regional potential which would contribute to economic growth.

The country has passed through several administrative-territorial reforms which didn't lead to a progress mainly due to the fact that decentralization of functions was not followed by their adequate funding (Analytical study on optimal administrative-territorial structure for Republic of Moldova, 2010).

- In 1994 there were legally approved changes in the soviet system of administrative organization, but with no essential changes of territorial structures. The Soviet model had been maintained largely unaltered. Thus, by 1998 the country's territory was divided in 38 raioane (districts), including five in the breakaway Transnistrian region.

- 1998: The 30 districts placed on the right bank of the Nistru river were amalgamated in 9 județe (counties), to which later the tenth was added. The territorial reorganization in 1999 was accompanied by a significant administrative reform, resulting in a new division of competences and resources, following closely the Romanian model.
- 2001/2003: In December 2001, newly elected power, adopted the new administrative-territorial reform, which took effect after the local elections in 2003. As result of the latter reform, the country actually restored a quasi-Soviet model of territorial division, while local autonomy was significantly reduced.

The objects of local and regional development are the material things to which ‘development’ action is directed. The subjects are the themes upon which ‘development’ is based. Each provides a means of discerning the implications of specific forms of local and regional development and policies (Pike A., Rodriguez-Pose A., Tomaney J., 2007). Territories evolve as defined areas in which particular definitions of local and regional development are constructed and pursued, and local governments are the promoters of the development as they better understand local problems and are more motivated to serve people’s needs as they reside locally and want to be re-elected.

Based on the National Development Strategy, National Strategy of Regional Development, the Moldovan Government plans to consolidate Moldova’s balanced regional development so that all regions would make a contribution to the development of the country as a whole, making competent use of their specific abilities. An important remark is that regional policy is not a sector policy, and regional policy objectives can only be achieved by a broad approach and through inter-play between different policy areas and co-operation between institutions.

The co-operation between public actors may be followed in the context of public consultations regarding initial draft of the National Decentralization Strategy in the framework of priority committed by the Government of the Republic of Moldova regarding decentralization of power and ensuring of local autonomy. The strategic coordination group composed of representatives of the Government, local public authorities and civil society was entrusted with the task of drafting the National Decentralization Strategy and the plan of action for implementing it. In terms of decentralization policies approach in the light of Human Rights and Gender Equality, within the process of Strategy development it was agreed to comply with the principles of equality, accountability, non-discrimination and social inclusion according to advanced methodology and practices of international experience.

As the current policy framework does not respond to the need of local public authorities and does not provide sufficient clarity on their role, authority and responsibilities, decentralization

represents an essential political option for the internal reform agenda of the Republic of Moldova, aiming at improvement of resources management and bringing quality services closer to citizens. It encompasses modernization of the public sector, enhancement of local autonomy, following the principles of transparency, legality, efficiency, responsibility and administrative solidarity.

The Strategy will be the main policy document in the field of local public administration that will determine the national mechanisms on decentralization and ensuring of a genuine local self-government to the local public administration authorities.

The capacity of local public authorities to address development challenges and to fulfill their responsibilities in front of citizens is weak and underdeveloped. Management of services and utilities, which is one of the key responsibilities of local public authorities is also weak. Moreover, the most vulnerable communities and groups of population (elderly, disabled, women at risk, persons with disabilities, ethnic and other minorities in particular Roma, and others) do not have access to basic public services, such as access to water, clean environment, and social services. The quality of services provided locally is low. Most deprived persons and communities in Moldova do not have enough capacities to access resources and participate in local development programmes, and mechanisms to ensure accountability, transparency, non-discrimination and participation are in many places missing or not functioning effectively. In view of the array of factors affecting poverty, it is evident that a serious attack on regional poverty requires policy and institutional interventions on several fronts.

Especially due to the policy and institutional interventions on several fronts, an inter-ministerial cooperation is needed at the central level for a better strategic planning and coordination between the existing sectoral strategies and future ones. The cooperation between local public authorities is also crucial. Participation in the implementation of common actions leads to prevalence of regional impact projects which are high-impact, high-visibility economic infrastructure projects and the final beneficiaries of such common actions will be the residents of the communes and regions. Projects built around strong local partnerships are more effective and can deliver greater benefits to more beneficiaries than if tackled alone. A participatory approach fosters a consensus around development priorities that maximizes the benefits that regional development projects produce.

For promoting the regional development policy and taking into consideration that at a minimum, good governance requires fair legal frameworks that are enforced impartially and all the procedures are transparent and carried out in a manner that follows established rules and regulations, it were adopted the legislation and strategic documents on regional development. In this way, regional development became a governmental priority for Republic of Moldova.

Regional development model introduced by the Law on Regional Development foresees the creation of bigger regions having strategic planning authority that would complement the existing territorial and administrative structure. The Law stipulates the creation of 6 development regions: North, Central and South (established initially); and Chisinau, Gagauzia and Transnistria (to be established after 2011). Regarding institutions, the legislation outlines the following framework:

1. The National Coordination Council for Regional Development (NCCRD), with responsibility for coordination and oversight at the national level, chaired by one of the country's Deputy Prime Ministers and supported by the Ministry of Regional Development and Construction;
2. The National Fund for Regional Development (NFRD), a national funding source for regional development priorities constituted of 1% of the state budget;
3. Regional Councils for Development (RCDs) in each region made up of Rayon presidents, the private sector and civil society, with responsibility for approving regional strategies; and,
4. Regional Development Agencies (RDAs) in each region to execute and monitor the implementation of regional strategies.

The National Strategy for Regional Development was developed to implement the Law on Regional Development. The Strategy is the main document of regional development planning that reflects the national policy in the field, and introduces national development mechanisms. Central and local public authorities as well as representatives of civil society and international organizations took part in Strategy development, at different phases.

National strategic documents on regional development are: National Strategy of Development 2008-2011 (Priority no. 5: regional development); National Strategy on regional Development; The Govern's Program of activity for the period 2011-2014.

While strategic programmes are being decided at national level, concrete actions are implemented at regional and local level. It is thus important for regional and local actors to be involved in all stages of the process (from the writing of the programmes to the monitoring and execution of actions on the ground). Talking about strategic documents, beside the National Strategy for Regional Development, Regional Strategies were adopted and now all the regional institutions, local public authorities work on implementing it. Without the territorial dimension a Regional Development Strategy can remain abstract and appear to be irrelevant to key stakeholders. Within the existing regional strategies, the territorial context was considered for reinforcing the sectoral approach.

Currently all the actions are oriented to build competitive regions at local level and created Regional Development Agencies focuses on: promoting the emergence of regional strategies; encouraging the emergence of local leadership; collaboration among local identified actors for

implementing more ambitious initiatives (i.e. clusters); investing in the identification of regional resources that could feed green growth initiatives; strengthening of institutional and technical capabilities.

This model of regional development aims at increasing the efficiency of the local public authorities without any administrative-territorial reorganization at this stage, but it certainly may be adjusted depending on new priorities. According to the identified needs and the fact that only in 2010 all the necessary institutions were created and became functional, an appropriate theoretical concept using worldwide best practices should be adopted.

## **CONCLUSIONS:**

This complex powerful and ongoing phenomenon, called globalisation certainly involves the local and regional development of a state. The globalized economic structure, with its many superstructural changes, including supraterritorial power structures, has led to profound implications for public administration. While many countries consider their local authorities as being service delivery institutions, important reforms were made to strengthen the local public administrations and to make them closer to the citizens, as well as making the regions competitive. A good understanding of the territorial dimension, context and spatial structures can lead to the identification of specific potentials and development perspectives whereby different areas can fulfill their potential.

According to the study, decentralization would help to implement regional development strategies in a more effective way. Local governments are better aware of the local problems and can react to the challenges faster. Furthermore, decentralization will help to match authority and responsibility as the consequences of any decision will be faced by decision makers themselves. It will surely stimulate competition for investments among the regions leading to business climate improvement.

The aim of reforms in the process of decentralization is to create public administrations able to fulfill their functions and responsibilities so that to ensure the economic, social and institutional development in the community. Each region is unique and therefore each Regional Development Strategy should be unique. A clear understanding of the spatial structures in a region will help to identify specific territorial capital (environment, infrastructure) of a region and place it in its wider geographical context.

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# COMMUNICATING ACROSS THE BORDER. A EUROPEAN EXPERIENCE FROM WESTERN ROMANIA

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**Abstract:** *The present article analyzes the challenges faced by the European Union in its endeavour of implementing and developing cross-border cooperation as a means for reconciliation and regional development. It also presents the context in which Euro regions appeared as a form of institutionalized cross-border cooperation and focuses on the Danube-Kris-Mures-Tisa Euro region, highlighting the opportunities and threats faced by this particular Euro region. Acknowledging that mass-media is a mirror of the society, the paper aims to establish, by analyzing the regional mass-media, if DKMT can be considered a case of good practice.*

**Keywords:** cross-border cooperation, euro regions, DKMT, regional media

**JEL Classification:** M38, R11

## 1. INTRODUCTION

The expansion of the European Union is a historical process with profound implication in the architecture of the large Europe seen as a union of free, democratic and prosperous states. The geopolitical situation of Europe has changed a lot after 1989, especially in the Central and Eastern parts of the continent. On the one hand, the relationships between the former communist countries have improved considerably – Romania-Hungary, Romania-Bulgaria, Hungary-Slovakia, etc. – and, on the other hand, there have appeared new states, new borders, as a result of the dramatic dissolution of the former Yugoslavia – Croatia, Slovenia, Bosnia and Herzegovina, Macedonia (FYROM), Serbia and Montenegro.

The improvement of the relations between the countries of the Central and Eastern Europe is based on the attention given to cooperation among the mentioned states, cooperation which transcends the current borders. Van Houtum emphasizes that, in a situation where borders cease to limit the space for action, we speak about a border that no longer functions as a barrier, but rather as a bridge connecting the two sides of a border together, creating a meeting place for actors from

various levels (van Houtum 1998, 171 in Laine 2006, p.5) and setting the scene for cross-border cooperation.

## 2. CROSS-BORDER COOPERATION

The main objective of cross-border cooperation is to ensure the long-term development of the local communities situated on the two sides of the border. It is a precise objective, attainable through concrete projects and programmes, and which implies the participation of numerous local promoters.

Such a local promoter is the Euroregional Center for Democracy (CED). It is a regional resource center that plays a key role, both as facilitator and as resource center, in materializing the concept of regional cooperation in Central and South-Eastern Europe. CED is located in Timisoara, the city representing an ideal learning location for a laboratory seeking to devise programs of great importance for the future of democracy and regional stability. CED is presently involved in programs regarding regional cross-border cooperation, education for democracy, training and consultancy, and advocacy (<http://www.regionalnet.org/misiunea.php>).

The Congress of Local and Regional Authorities of the Council of Europe (CLRA) also plays an important role in enhancing regional cooperation and development. CLRA is a pan-European political assembly, representing over 200,000 authorities in 47 European states. Its role is to promote local and regional democracy, improve local and regional governance and strengthen authorities' self-government. It pays particular attention to application of the principles laid down in the European Charter of Local Self-Government. It encourages the evolution and regionalization processes, as well as transfrontier cooperation between cities and regions (<http://www.coe.int/t/congress/presentation/>).

Cross-border cooperation as a means for reconciliation and regional development, going back to the 50s of the last century, proved to be an important tool for the integration and development process in Europe after World War II. One can follow the experience and the tangible results achieved through “Euroregions”, being established as tools for intensified cross-border cooperation between local and regional communities at the borders mainly between D/F and D/NL or later, after 1989, at Central and Eastern European borders. The main motives, hereby as motors for such initiatives, can be described through the main challenges, which border regions were and are still facing:

- the transformation of the border from a line of separation into a place of communication and cooperation between neighbours;
- the overcoming of mutual animosities and prejudices between peoples of border regions which result from historical heritage;
- the strengthening of democracy and the development of operational regional/local administrative structures;
- the overcoming of national peripherality and isolation;
- the promotion of economic growth and the development and improvement of living standards;
- the rapid approach towards and integrated Europe, just to mention a few of them.

If on the level of national governments and their official foreign policy it sometimes seems that the “close cross-border cooperation and good relations of neighbours”- declarations, tend to keep a certain abstract approach, such cooperation on the level of local authorities is based on tangible common needs and interests, at the same time being much more close to the citizens. Nowhere more so than in the border regions of neighbouring states is the necessity of avoiding a return to the previous state systems clear to everyone. That which is often merely a European theory for "Inlanders" is usually the daily practical reality for those people living on the border regions. It is these people who mostly suffer the consequences of the existence of the borders and, as such, they would like to remove the cause of their problems. It is therefore the aim of the work in the border regions and of the cross border cooperation to remove any barriers and separating factors within these regions and to achieve the eventual surmounting of the border, or possibly a reduction in the significance of the administrative border<sup>1</sup>.

## 2.1 Euroregions

During the early 1990s, cross-border cooperation became one of the most dynamic areas of EU regional policy. By the late 1990s, there was not a single border in the EU that was not covered by some type of cross-border cooperation scheme (Jonsson, Tagil, & Tornqvist, 2000 in Popescu, 2008, p.423). In this context, Euroregions emerged as the most common form of institutionalized cross-border cooperation.

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<sup>1</sup> <http://www.eurobalkans.net/enstrane/introduction.htm>

The first Euroregions appeared in the 1960s in the Dutch-German borderlands and were primarily the outcome of bottom-up social action aimed at addressing issues of peripheralization generated by nation-state borders. The mid-1990s saw the EU, together with national governments, become actively involved in promoting and guiding the establishment of Euroregions, imagining them as part of a broader strategy addressing issues of a borderless European space in the making.

The process of integrating the East European post-communist states after 1989 constituted another factor with significant impact on the development of EU geopolitics. The main strategy behind the EU's enlargement policy was the eastward transfer of its spatial vision of European unification through encouraging a variety of interregional, cross-border, and transnational institutional links between the EU member states and the East European applicant countries (Kennard, 2003 in Popescu, 2008, pp.424).

The EU policymakers came to see cross-border cooperation, institutionalized in the form of Euroregions, as one of the pillars of their enlargement policy. Euroregions were intended as a territorial framework where East Europeans would prepare for EU membership by practicing multilevel governance, learning to address cooperatively border-related issues, and working on reducing cross-border economic asymmetries. EU funding schemes, such as INTERREG, TACIS, and PHARE, were designed to support the implementation of this strategy. In this context, by the early 2000s Euroregions straddled most of the east European national boundaries (Popescu, 2008, pp.423-424). In this way, the EU "space" of cross-border cooperation was extended to Eastern Europe before any of the countries in the region gained EU membership.

Therefore we can say that the strategy of using cross-border communication to prepare the East European states for accession, follows Winston Churchill's famous words: "Let us build wisely, let us build surely, let us build faithfully, let us build not for the moment, but for the years to come" (<http://www.winstonchurchill.org/learn/speeches/>).

As we mentioned in the previous chapter, the efforts for creating strong Euroregions are supported by local promoters. The Euroregional Center for Democracy (CED) is located in Timisoara, because the city represents a multi-ethnic and multi-cultural space which encourages the dialogue between individuals and institutions that promote democratic values. Timisoara is actually the biggest city in the Banat region, and it mirrors the exemplary relations between people of different ethnicity, typical for the entire region. As Barna Bodo wrote "the remarkable minority relations in Banat" might serve as "a model of contemporary trans-national communication" (Neuman, 1998, pp.162).

In 2001, the Euroregional Center for Democracy was the nexus of a network of NGOs and institutions from Albania, Bosnia-Herzegovina, Croatia, Montenegro-FRY, Serbia-FRY, Slovenia,

Hungary, Bulgaria, FYR of Macedonia and Romania, comprising more than 430 member organizations.

In order to maintain and further build this network based on partnership and collaborative agreements, the Center has elaborated a set of principles to be taken into consideration by the non-governmental organizations engaged in effective regional cooperation projects. It is often referred at as the “Decalogue of Regional Cooperation”. It reads as follows:

1. Partners have agreed upon the mission and the shared values, as well as upon the common goals and the measurable outcomes of the partnership.
2. The relationship between partners is characterized by mutual trust, respect, genuineness and commitment.
3. The partnership builds upon identified strengths and assets, but also addresses areas that need improvement.
4. The partnership balances the power among associates and enables resources to be shared.
5. There is a clear, open and accessible communication between the partners, making it an on-going priority to listen to each other and to validate/clarify the meaning of terms, developing a common project language.
6. Roles, norms, and processes for the partnership are established with the input and agreement of all partners.
7. There is feedback to, among, and from all stakeholders in the partnership, with the goal of steadily improving the partnership and its outcomes.
8. Partners share the credit for the partnership’s accomplishments.
9. Partnerships take time to develop and evolve over time.
10. The partners will build and sustain the existing network (Mihăieș, 2003).

## **2.2 New Dimensions of Cross-Border Cooperation**

In 2000, in a report of The Congress of Local and Regional Authorities of the Council of Europe entitled *Democratic Stability in Central and South-eastern Europe through Cross-border Cooperation*, a new aspect of cross-border cooperation was emphasised: that of generator of stability in South-Eastern Europe (Coifan, 2003).

At the 19<sup>th</sup> Conference Europe of Regions, in 2001, Klaus Schumann mentioned that “within the present Stability Pact for South-East Europe the Council of Europe supports a strategy of combined efforts to strengthen local democracy institution and to promote the development of cross-border cooperation structures (Euroregions)” (Schumann, 2002, p.19).

The Stability Pact for South Eastern Europe was an institution aimed at strengthening peace, democracy, human rights and economy in the countries of South Eastern Europe from 1999-2008. It was replaced by the Regional Co-operation Council (RCC) in February 2008 (<http://www.stabilitypact.org/about/default.asp>). The RCC focuses on regional cooperation in South-East Europe (SEE) through a regionally owned and led framework that also supports European and Euro-Atlantic integration ([www.rcc.int](http://www.rcc.int)).

Nevertheless, cross-border cooperation can be enhanced only through successful communication. It has been accepted that an unsolved problem of the European construction is connected to the deficit of communication, deficit which has conceptual, organizational/institutional or structural problems (Lianu, 2009). Understanding these problems, the Committee of the Regions has initiated, in 2008, a new decentralized communication policy, which intends to bring the EU information at a local level.[...] The decentralized communication regarding Europe mainly aims to:

- integrate the European dimension in the political administration at a local and regional level
- facilitate interaction with the local and regional mass-media
- make use, at a local and regional level, of the new communication technologies. (Vasile, 2009, pp.96)

### **3. LOCAL/ REGIONAL/ NATIONAL MEDIA**

Mass-media's crucial role in the formation of people's opinions, values, desires and behaviours is well known and accepted nowadays. It facilitates public communication, it conveys messages from the national/regional/local authorities, it discusses the citizens' major causes of dissatisfaction, it presents success stories or unfortunate mishappenings, etc. Based on these and other roles it assumes, mass-media also becomes a mirror of the society. Thus, any attempts of addressing audiences, with the purpose of changing their opinion and/or behaviour, is closely related to the media appropriate for convey the required messages.

In the case of Euroregions, building awareness, raising support and creating cooperation relies on the communication media available in that particular region. Choosing or creating the right local/regional/national newspapers, magazines, radios, televisions, websites, online news portals or blogs is essential for the successful implementation of any project.

Press is called local, regional or national based on a series of elements:

- the area for collecting information/opinions
- the broadcasting area
- the assumption of a position/attitude regarding the messages

Unfortunately, more than five decades of authoritarian regime have developed the extremes of press types: national, respectively local or county at the most. In order to be able to speak about regional press in Romania, a constant, balanced and coherent effort of covering the region should exist. This effort of identifying and disseminating worthy news should be correlated with the values and cultural-spiritual landmarks of the respective area (Cernicova, 2009). Sadly, the myth of the universal journalist is sufficiently powerful and professionally credible to cast shadow over the efforts of the journalist anchored in the realities he presents.

### **3.1 The Region in the West Romanian Context**

After five decades of politics oriented towards the elimination of differences between Romania's historical regions (among others by replacing the term of "community" through "collective"), two decades of establishing the idea that success is based on individualism, egoism and scarification of community relations followed. Therefore, post-Revolution Romania was, from a political point of view, afraid to tackle the regional policies. The fears had various sources:

- the lack of experience in handling the subject;
- the examples of regionalism with political consequences like autonomism, enclavization, federalization;
- the lack of credible partners in the territory, who would remain loyal to the central leadership.

It was only the existence of regional policies at European Community level that exerted enough pressure on the state authorities, forcing them to accept the development of some regional policies and institutions. To support this opinion, we mention the fact that in 1992, for example, the association between counties from West Romania (Arad, Caraş-Severin și Timiș), with the purpose of socio-economic development, was blocked by the Government. Neither the process of decentralization, nor the creation of institutions at a regional level did not happen smoothly, decisively, with will on the part of the competent authorities (Cernicova, 2003). The trans-county regrouping did not lead to stable formulas, except in the case of Szekely Land. In Western Romania, however, we speak of:

- The Historical Banat – of which only the Timiș and Caraș-Severin counties are clearly and entirely part, as Arad is spiritually, mentally and historically split between Banat and Crișana, and Mehedinti has a dual identity split between Banat and Oltenia. We could also add Voivodina and an insignificant territory from Hungary.
- The Region (V) Vest – with Arad, Caraș-Severin, Hunedoara and Timiș counties. At this level there are institutions and coordinating forums, but there is no regional awareness.
- DKMT Euroregion – with partners from Hungary, Romania and Serbia (alphabetical order). In this case too, there are coordinating bodies, public policies, but also difficulties in stimulating the sense of belonging, and attachment to the geographical area.

### 3.2 The DKMT Euroregion

The protocol for the creation of the DKMT Euroregion was signed in Szeged, Hungary, on November 23, 1997. It was considered then that the appropriate structure for the coordination of activities within the DKMT Euroregion was the Presidents' Forum. In the meanwhile there have appeared other specific structures of cooperation, between chambers of commerce, universities, cultural institutions, etc. (Coifan, 2003, pp.93). We present hereinafter a SWOT analysis of the Danube-Kris-Mures-Tisa Euroregion:

**Table 1 – SWOT analysis of DKMT Euroregion**

| <p style="text-align: center;"><b>STRENGTHS</b></p> <p style="text-align: center;">(positive aspects, internal to the entity)</p>   | <p style="text-align: center;"><b>WEAKNESSES</b></p> <p style="text-align: center;">(negative aspects, internal to the entity)</p>   |
|---|--|
| <ul style="list-style-type: none"> <li>• Valuable natural resources</li> <li>• Multicultural traditions</li> <li>• Varied and attractive landscapes, divergent cultural heritage – excellent tourism related endowments</li> <li>• Developed R+D and innovation potential</li> <li>• Joint strategic planning</li> <li>• Availability of international airport</li> <li>• Important European corridors intersect the Euroregion</li> <li>• There are three internationally acknowledged higher educational centres in the region that have been working together</li> <li>• Working media relationships and cultural cooperations</li> <li>• Developing international and EU system of</li> </ul> | <ul style="list-style-type: none"> <li>• Existence / possibility of EU membership</li> <li>• Differences in EU sources, tendering possibilities, support systems. The EU harmonisation of economy is significantly divergent</li> <li>• Shortage of capital, lack of interest on behalf of investors, low level of own sources, relative poverty in all three areas</li> <li>• Weak transport connections within the region, outdated infrastructure</li> <li>• Border crossing stations with insufficient capacity</li> <li>• Underdevelopment of tourism infrastructure, lack of integrated tourism information</li> <li>• Lack of Euroregional tourism marketing</li> <li>• Polluted surface and ground waters</li> <li>• Lack of the system of tools necessary for the management of cross-border environmental</li> </ul> |

|  |   |
|--|---|
| relationships  | <p>pollutions</p> <ul style="list-style-type: none"> <li>• Insufficiency of the institutional system of cross-border regional and local level co-operation</li> <li>• Lack of innovation disseminating aspects</li> <li>• Negative demographic tendencies</li> </ul>  |
| <b>OPPORTUNITIES</b><br>(positive aspects, external to the entity)   | <b>THREATS</b><br>(negative aspects, external to the entity)  |
| <ul style="list-style-type: none"> <li>• Improvement of relationships, stabilizing circumstances on the Balkans</li> <li>• The region can function as a Southeast European gate with the enlargement of the EU</li> <li>• Availability of EU support for cross-border cooperation</li> <li>• The university centres of the region are capable of catalysing European level development</li> <li>• The Euroregion is able to integrate the connection of regional development and the knowledge base</li> <li>• The development of Trans-European Networks intersecting the region enables the reconstruction of transport networks torn apart, and thus connecting the region to the circulation of the European economy</li> <li>• Strengthening the international logistical role</li> </ul> | <ul style="list-style-type: none"> <li>• Changes of the political situation might negatively affect co-operation</li> <li>• Relatively high environmental risk of serious natural disasters</li> <li>• The slowness of infrastructural developments restricts co-operational possibilities</li> <li>• Failure to close up economy and especially agriculture may cause social problems</li> <li>• Shortfall caused by the insufficient financing of R&amp;D and the sector of higher education</li> <li>• The different dates of EU accession may cause tensions</li> <li>• The Schengen border control may hinder co-operation</li> <li>• The tourism related marketing activity is not realised because of the lack of resources</li> </ul> |

Source: apud Erika Oskó, Danube-Kris-Mures-Tisa Euroregional Development Agency PUC.

Achieving the objectives of DKMT is closely related to the ability of organizing successful communication between the partner countries. In order to attract funds, a region must prove trustworthy, capable of managing the relations among the members. If communication media between them exists their level of cooperation, involvement and awareness can be easier to identify and asses. That is why regional mass-media plays a key role in the successful implementation of any projects.

### 3.3 Regional Media

Except for the territorial studios of the public radio and television, *Radio Timișoara* and *TVR Timișoara*, which have all the characteristics of regional press and which host cross-border shows directed at the public of the DKMT Euroregion, there are very few instances of regional press.

In the form of written press, we mostly deal with local or county press, directed at a cross-county audience. Usually, most of the information published covers the town where the headquarters of the editorial team is. This can be seen in the media products edited in Timișoara:

*Ziua de Vest*, *Focus Vest*, *Evenimentul Zilei – Vest*, the *Transilvania-Banat* supliment of the daily newspaper *România Liberă*, (when it was launched), *Bănăţeanul*, *Cronica de Sud-Vest* etc. (some of these newspapers no longer exist), as well as in the products of other towns: *24 h* – in Reşiţa or *Noul Observator* – in Jimbolia, *Tăt Banatu'i Fruncea* – in Făget, *Nyugati Jelen* – la Arad etc.

Some cross-border attempts are worth mentioning: *Délvilág és Temesvári Új Szó* – between 1991-1993, *Régi(j)óvilág* - in Hungarian, founded in 2006, or *Licurici*, Romanian publication broadcasted around the border area between Romania, Serbia and Hungary, launched in 2003. The authorities from the Euroregion have also tried to produce a full-colour euroregional magazine, in the beginning under the name of *Euro Trio* (1998-1999), and later of *Euro Régió* (2000-2001). However, because it contained information exclusively from the promotion area, the magazine did not last on the media market. In the audiovisual department only *Radio Banat Link* undertakes a regional editorial policy and the cable radio and television channel *Analog* are exploring regional audiences (Cernicova, 2009).

The only large regional media products which can be considered as a real success are in the area of electronic media:

- the [www.zoro.ro](http://www.zoro.ro) portal, with information presented in German;
- the news portal [www.ericinfo.eu](http://www.ericinfo.eu), with information written in four languages (Hungarian, Romanian, Serbian and English).

### 3.4 ERIC Euroregional Information Centre

The aim of the project is to help the multilingual communication of the DKMT, to motivate the euroregional integration and innovation related efforts of cross-border regions and to provide assistance for the stabilization and EU integration processes of the region with special tools. The overall objectives focus on:

- Eliminating the peripheral nature of the cross-border region
- Increasing the level of euroregional information supply and awareness in the border region
- Supporting the formation of euroregional co-operations and the principle of subsidiarity
- Activating the economic life, economic relationships of partner countries, strengthening regional business relationships

The direct objective of the project is the establishment of an information centre, which helps the operation of euroregional relations with news agency activities and multilingual multimedia press service. Other objectives consist of:

- The establishment of the DKMT Euroregional Information Centre and the Serbian contact office, operation of a news agency, on-line information services;
- Building of euroregional relationships and networks ;
- Developing own professional press network of the border region;
- Delivery of knowledge, experiences, accentuated management of information regarding the European integration (no longer valid);
- Strengthening coherence in everyday life.

*Ericinfo.eu* addresses a wide audience (more than 800000 visitors) comprised of:

- Media of the DKMT Euroregion: local and regional newspapers, radios, televisions;
- County newspapers published in a large number of copies and local radios, several dailies and weeklies published in a large number of copies in the Vojvodina;
- Media websites, which means an alternative media on the one hand and further readers on the other hand;
- Professional organizations, chambers of commerce, educational and cultural organizations, civil organizations of the cross-border region (<http://www.ericinfo.eu/>).

Unfortunately, the ending of external financing for the project and the lack of sufficient financial resources threatens to put an end to this successful project and turn it into just an example of good practice in the archives of the European institutions.

#### 4. CONCLUSION

The dynamics of the European Union and the changes brought about by the expansion of its borders have countless effects on the lives of the communities living within it. Some of these effects are positive, some are negative, some are intensively discussed and others are intentionally or unintentionally overlooked. Cross-border cooperation is obviously a positive aspect which sets the scene for socio-economic development of a particular region.

As we mentioned throughout the paper, Euroregions have appeared as a form of institutionalized cross-border communication. They have allowed for the absorption of funds and consequently have boosted the economy and infrastructure of the regions. The social interactions have also intensified, especially among those directly involved in regional projects.

After analyzing the current state of the regional mass-media, within Western Romania and the DKMT Euroregion, we noticed that written press is declining. On the other hand, online news sites have an increasing number of visitors. This trend is in accordance with the current changes mass-

media faces all over the world, but it is also heightened by the type of target audiences. It is the institutions, NGOs, promoters and implementers of regional projects, or other stakeholders that are interested in being informed about regional affairs and, because of time constraints, they mostly use online media.

The online news portal *ericinfo.eu* represents a success story. It has a user friendly design, a complex structure which provides visitors with advance search options, and, most importantly, it provides, simultaneously, the same information in four languages. Unlike the portal *zoro.ro*, which delivers the information only in German, therefore considerably reducing the target audience, *ericinfo.eu* caters for the needs of the citizens from all the three countries part of DKMT Euroregion. We can conclude that, even if one of the weaknesses of DKMT identified earlier refers to the lack of innovating dissemination, the successful implementation of the *ericinfo.eu* project highlights the ability of the Hungarian, Romanian and Serbian project partners to capitalize on the multi-lingual region-specific expectations.

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# THE RIGHT TO ENVIRONMENT

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**Abstract:** *This study refers to the fundamental right of the human being to have a healthy, ecologically balanced environment as well as to the necessity of recognizing and guaranteeing this right. We analyze the major components of the human being environment protection, the right to water, the right to fresh air, the right to the environment of the human settlements, the relationship: health – environment.*

*A special attention is given to the integration of the sustainable development in the EU policies.*

**Keywords:** sustainable development, the environmental law, the right to environment, the environmental strategy

**JEL Classification:** Q01, Q56

## 1. THE RECOGNITION OF THE RIGHT TO ENVIRONMENT

Generally speaking, when we talk about environmental protection, we refer to what is happening or to what we have to do to protect air, water and soil, even if, for the past few years, we hear more and more about the protection of the environment of the human being. This means that *we are referring both to the natural environment and to that environment created by man and for man*, so both to the environmental law as well as to *the right to environment of the human beings*.

Among numerous arguments which we have taken into account, three of them can be considered as being more important:

- The scientific proofs demonstrate that the environment matters represent a serious threat at a global level, the costs generated and the associated risks to the climate changes could rise up to 20% of the GDP, while the services assured by the planetary ecosystem have deteriorated or have been over-used, and the ecological pattern of the humanity over-passes currently with about 25% the regenerating capacity of the planet (Angelescu & Popa, 2009);

- The reason for which the UNO has declared the year 2010 The International Year of the Biodiversity is the decline of the ecosystems. An alert-report presented by the UNO illustrates the devastating state of the present-day environment;
- The world populations ignore the notion of sustainable development and the sense of the theme of the 21 Agenda.

Today, the humankind faces the *Ecologic Revolution*, dictated not by technological discoveries but by a survival instinct. *The earth is not” a business in liquidation”*. *“For the first time a civilization uses the capital of nature instead of living from the interests given by this capital”*, said Toffler. The specialists think that the time we have left is about 10-15 years in order to take the right decisions whose results cannot be seen earlier than 50 years.

Nowadays, we are dealing with the following major environment problems:

- *Pollution* (pollution, pollutants, sources of pollution, prevention, improvement) – thus the environmental protection is more and more necessary;
- *The exhaustion of resources* – the environmental conservation becomes increasingly necessary;
- *Responsiveness* (in agreement with the sustainable development and the corporate ecologism) – the ecologic education and the assuming of responsibility is more and more necessary for everyone. This is the true meaning of the sustainable development.

Despite the importance of the environmental protection by people and for people, the concept of the fundamental human right to have a healthy, ecologically balanced environment and also the necessity of its acknowledgement and guarantee has crystallized and structured only in the second half of the twentieth century. The unsatisfactory results of various international meetings about environmental issues are primarily due to the disproportions between levels of development from different areas of the planet. On the other side, the ecological imbalance developed in time and got worse. A good proof is the international, regional and national concerns from the past twenty years. Even the names given to recent UN environment: conferences: in 1972 (Stockholm) – The UN Conference *for Environment*, in 1992 (Rio de Janeiro) – The UN Conference *for Environment and Development*, in 2002 (Johannesburg) – The UN Conference for a Sustainable Development.

*The international consecration of the right to environment was made through the Statement of the first UN Conference regarding the Environment from Stockholm, when it was proclaimed that:” Man has the fundamental right to freedom, equality and adequate conditions of life, in an environment of a quality that permits a life of dignity and well-being. He bears a solemn responsibility to protect and improve the environment for present and future generations”*. This

concept is held a few years later, as a guiding line, within the international relationships, through the World Charter for Nature (1982), and then within the first principle of the Declaration of Rio de Janeiro (1992): “*Human beings are at the centre of concerns for sustainable development. They are entitled to a healthy and productive life in harmony with nature.*” As a result, the international community has focused slowly and rather correctively its attention upon the aspects which had a visible effect, sometimes with serious consequences, the human beings and the spaces where they operate, taking into consideration the following dimensions of this environmental component – the protection of the human being environment:

- *The protection of the human settlements environment ;*
- *The environmental protection from hazardous and radioactive substances;*
- *The environmental protection of the agricultural areas;*
- *The environmental protection against vibrations and noises;*
- *The environmental protection against waste.*

Of course, all these components have an important contribution to ensuring the quality of life and human health and include: *the right to biodiversity, the right to clean and sufficient water, the right to unpolluted air, the right to environmental beauty, to its wealth and resources, the right to information about the environmental conditions, the right to an ecological education, etc.* All the international and national documents that refer to human rights or to the environmental protection also refer to *the right to environment*, for example: *The Charter of the Human Rights, The Romanian Constitution, The Approving Law of OU 195/2005 regarding the environment protection (Art 5, 55, 59, 70, 82, 85, 91, 92), and The Water Law etc.*

The past few years’ decades shows that there are important relationships between environmental quality and protection issues (globally and locally) and issues such as economic development, human development, population growth, poverty, changes in political structures.

## **2. THE RIGHT TO ENVIRONMENT AND THE SUSTAINABLE DEVELOPMENT**

Analysing the definitions for “environment” and “sustainable development” we will acknowledge the correctness of our observations regarding the importance of the two concepts, among which the last one is less discussed.

Referring to the legal aspect, the environmental law defines the environment as: a sum of resources that must be protected against pollution and degradation composed of: air, water, soil, subsoil, flora, fauna, natural energy sources and habitable land, a total of resources to meet the

human's needs. ISO 14001:2004 defines the environment as being “the space in which an organization operates including air, water, soil, subsoil, natural resources, flora, fauna, human beings and the relations between them.”

Even the redefinition of sustainable development that focuses on human well being and the action of removing the separation between economy and society still has drawbacks. Sustainable development needs to be based on principles that would apply to all issues whether they are classified as environmental, social, economic or any mix of the three. Haughton (1999) outlines five equity principles:

- (i) Futurity – inter-generational equity-the right to environment of all generations;
- (ii) Social justice – intra-generational equity;
- (iii) Cross-border responsibility – the right of every nation to environment;
- (iv) Procedural equity – people treated openly and fairly–and;
- (v) Inter-species equity – importance of biodiversity.

### **3. THE PROTECTION OF THE HUMAN SETTLEMENTS ENVIRONMENT**

The human settlements are spaces for housing, socio-political and cultural sites, economic objectives, areas for recreation or any other facilities where human beings are operating activities and where the interests of their maintaining and developing, prevail any other issues. (Oprean & Suciu, 2003). The concept of “city” is defined by Toynbee as “a settlement whose people can not produce, within its limits, all the food they need”- which implies the existence of some agricultural land whose products are supplied to the city.

The issue of the human settlements environment protection is highly complex and permanently changed. *The main topics* that must be addressed in the relationship city-environmental protection are:

- *Pollution;*
- *Water;*
- *Garbage, waste;*
- *Transports;*
- *The relationship Environment-Health.*

The increasing urbanization and the explosion of the industrial zones from the past few decades have imposed national strategies to harmonize the interests of the human beings with the ones linked to environment. The following aspects are taken into consideration:

- *The responsibilities of agencies and administrative authorities* referring to the creating and maintaining of a healthy living environment aligned with the socio-economic development of localities and in agreement with the development plans and urban planning (the placement of the objectives and architectural lines, routes and traffic control, sanitation, sewage systems, waste storage stations, water treatment stations, rest and recreation facilities etc.)
- *Creating an appropriate framework of rules ;*
- *Imposing rules of conduct relating to hygiene and public health.*

#### **4. ENVIRONMENT AND HEALTH**

From the early beginning, the European Union policy about environment protection took into account health considerations (e.g. Within the Community Action Programme on public health the environment is considered a major determinant factor of health).

The European Environment Agency (EEA) as well as other national organisations reported that it is paid too little attention to the interaction between different pollutants inside the human body and in the environment. Even at relatively low exposure levels, which are being active for longer periods of several decades, a so called “cocktail” effect appears, “cocktail” of different pollutants from air, water, food, consumer products and building materials that can dramatically affect the health of the European population. (E.g. The EEA report for 2002 regarding “The children’s health and environment” revealed a significant increase in the incidence of asthma on children in Western European countries and the emergence of some disturbances in their development.)

Taking into consideration the size and complexity of environmental and health problems *in 2003 was adopted the European Environment and Health Strategy* having as main purpose to reduce diseases caused by environmental factors , and in 2004 the “SCALE” initiative was launched ( Science – Children - Awareness – Legal instruments – Evaluation) through which the community efforts go hand in hand, in line with sustainable development objectives, in order to protect the most vulnerable groups in our society and those who will shape tomorrow’s society.

Until now, the environmental risk allocation and the environmental policy actions have been focused on one type of pollutant from an environmental factor (air, water, soil) and a number of environmental problems could be solved. However, solving the impact on health in this way lead to

underestimated results, because real situations are more complicated: the pollutants may be transferred between different environmental factors (from air into soil or into water people are exposed to a combination of pollutants which interact in the environment and inside the human body. These effects are not sufficiently taken into account in current policies, as they are not sufficiently integrated, meaning that the air monitoring data are not correlated with water or soil monitoring data and neither with those of health, and as a consequence, they do not effectively address the specific interface for environment and health.

In order to achieve an understanding of conditioning and causes between the environmental threats and the adverse effects on health and to allow decision makers to take into account these complex combined effects, an integrative approach is needed. This implies:

- An integrated *community information*;
- Integrated *research*;
- Integrated *policies*;
- Integrated *decisions and actions*.

“Such an integrative approach is essential for future development of environmental legislation and for the measures taken to protect the human health.” (Popescu, 2006). The integrated approach will be implemented in successive cycles and on phased topics. The first cycle (2004-2010) will focus on clearly defined priorities and create the basis for the next cycle. Thus the following directions were selected:

- The European Integrated System of Environment and Health Monitoring and Response, in order to determine the overall impact of the environment on human health;
- Research in order to achieve a better understanding on issues of environment and human health;
- Reduce exposures.

This strategy is evolving and it is based on the participation of all “actors” and on the best available scientific knowledge as it was established in the 6<sup>th</sup> European Environmental Action Programme. The technical standards imposed to the industrial platforms and to the household and office appliances are increasingly demanding. The pollutants emissions are diminishing in some parts of the globe. Yet, the health of a growing number of people degrades. On the one hand, new concerns about the level of protection techniques, health protection and modern lifestyles appear, on the other side, there is a “race” between chemical and pharmaceutical increased effectiveness and adaptive evolution of the species concerned. Some of the new signals and health concerns related to the right to environmental law issues are:

- *The transfer of viruses and bacteria* by means of transport but also because of climate trends
- *Increasing resistance to antibiotics and plant products* driven by excessive use of this products and by the transfer of species from long distances;
- *Undesirable effects unforeseen) of genetically modified organisms (GMO's);*
- *The negative effects of air pollutants* (respiratory and cardiovascular diseases due to fine particles, carcinogenic volatile hydrocarbons, plant protection products present in aerosols and rainwater, etc.);
- *The indirect effects of ecosystems disturbance* (e.g. the dystrophy or accelerated eutrophication due to the excess of nutrients lead to toxicity through the development of species, scallops, fishes, that consumed by humans can cause paralysis or even death);
- *The adaptation of pathogenic species or predators to the products which are usually used to combat them* (in 1998 The European Commission has proposed banning the use of four types of antibiotics used for humans on animals).

## 5. THE ECOLOGICAL MOVEMENT

According to experts, the three supporters of sustainable development are *the environment, the economy and the society*. The introduction and the acceptance of the concept of sustainable development were due to the emergence of “conflicts” between these supporters. There is, thus, an interdependence *man- natural environment*, an indissoluble unit with a complex and dynamic nature and with profound implications on the social-economic development that mankind began to understand.

Failure to have the right to environment and to the environmental law has led to the development of the ecology movement.

The development of the *ecological movement* has proved that there is a lot to do in order to maintain equilibrium of environment and to prevent a conflict between *economy-ecology-society-technology*. The ecological movement was born with Rachel Carson's *Silent Spring*, the book which is widely credited to have helped the launch of the ecological movement. The book documented detrimental effects of pesticides on the environment, particularly on birds. She also accused the *chemical industry* of spreading *disinformation*, and public officials of accepting industry claims uncritically. But she was only a pioneer. Now, the worldwide researchers agree that *a new ecological world order* is needed to be established. The events of recent years reflect this.

Solving the conflicts with the environment is vital for the ecological movement. It implies a radical change in the policy making process, mainly because of communities' distrust in public institutions and in the technical control structures. Both the ecologist movement and the politicians must necessarily take into account the local, social, cultural and economic requirements, otherwise they risk losing the consensus among population. Therefore, the unilateral decisions of the authorities are viewed with suspicion and may be considered illegitimate.

*Man is the cause of the environmental imbalance but also ... the solution.* The green consumer, the "eco" phenomenon in politics, in research and technology, in education, in tourism, in public administration, in management and marketing are evidences of increasing concerns about the right to environment.

In order to get the expected result, the practice of a management with a serious impact upon the environmental education should focus on creating networks and strategic alliances among the parties involved: the one who produces the act of education in institutions, the one who distributes permanent environmental education and the one who finances the program.

## 6. CONCLUSIONS

The general environment protection and its economic, ecological, social and cultural function represent a preliminary condition for the approach of the main ecological challenges at the international level. The role of the environment in satisfying primary, vital needs is generally well-known, but the concrete possibilities to interfere for modeling social processes in such way that they contribute to the harmonization of this relation are less obvious or hardly accepted.

The right to environment must be respected, measured. "To measure means to understand, to understand means to get knowledge, to have knowledge means to have the power" (H.J. Harrington, 2000).

The education and the training is the primary foundation of the sustainable development. In the analytical report for 2009 of the European Union's Strategy for Sustainable Development it is encouraged the effort of the Member States to create a strategic approach regarding the exchange of knowledge and best practices in order to stimulate environmental education and sustainable development. ([http://ec.europa.eu/education/more-information/doc/sustdev\\_en.pdf](http://ec.europa.eu/education/more-information/doc/sustdev_en.pdf))

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# INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES- A NEW CHALLENGE FOR THE EUROPEAN UNION

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**Abstract:** *In the context of the global economic crisis, small and medium enterprises are most affected. That is why the problem that arises more frequently is the harmonization of national legislation with the European legislation. The necessity to implement specific standards for SMEs appeared in order to provide them a beneficial framework for better economic and financial market positioning. In this respect, the International Accounting Standards Board issued in 2009 IFRS for SMEs, a referential aiming to the simplification of accounting procedures, reconciliation and increase of confidence of potential investors (stakeholders). The question of compatibility of these standards with the European Accounting Directives appears in situations where they may choose to use IFRS for SMEs. The aim of this paper is to evaluate the incompatibilities between IFRS for SMEs and the European Accounting Directives and to analyze the results concerning the implementation of the IFRS for SMEs in Europe. Through this article we want to contribute to the SME accounting area of knowledge.*

**Keywords:** IFRS for SMEs, compatibility, European Accounting Directives, harmonization, reconciliation, implementation.

**JEL classification:** F15, F23, F36, K20, M41.

## 1. INTRODUCTION

Paul Holt and Cheryl Hein defined harmonization as a process of reducing differences in accounting, to encourage standardization (Holt and Hein, 2001). The effect of the harmonization is the increasing comparability of financial statements presented by companies from different

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countries. According to Nobes and Parker, the harmonization process should be viewed as increasing the comparability of practices in different countries by establishing limits of variation (Nobes and Parker, 2004). Also, harmonization of accounting can be defined as a negotiation between the specialized international bodies, in order to reach an agreement regarding the international comparability (Zeff, 1981). Nicolae Feleaga sees harmonization as a process through which national regulations that differ from one country to another are made comparable (Feleaga, 1999, p.36).

Accounting harmonization process implemented within the European Union began in the 1970s. It is a part of the harmonization of company law for European Union countries and aims to harmonize the accounting systems of the member states, developing in this respect, European Accounting Directives that will be incorporated into the laws of each state (Ristea and Dumitru, 2005, p.33).

Special roles, in terms of accounting harmonization at the European Union level, have the Fourth and Seventh Directive.

The Fourth Directive concerning the financial statements of public and private companies other than banks and insurance companies has a dual mission: to meet the information needs of European enterprises and to ensure comparability of information published by these companies (Belkaoui, 2000, p.19). The Seventh Directive, published in 1983, concerns consolidated financial statements.

After the early 1970s, EU made great progress in terms of international accounting harmonization through Economic Directives, the IV and VII, as well as through International Accounting Standards. The process culminated with the obligation for all traded companies to use IFRS from 2005. The author Bernard Raffournier says that the obligation to apply IFRS does not apply unless traded companies. Listed companies from the United States of America are required to apply Financial Accounting Standards (FASs). Harmonization of international accounting has been a process with two speeds: fast for large publicly traded companies, but much slower for others (Raffournier, 2009).

Why IFRS in Europe? On the one hand, accounting and financial information belonging to a European plan for action has to become global, and on the other hand, IFRS must arise as the choice of European Union economic and political decision, in a general plan of action.

Why IFRS for SMEs in Europe? These standards were created because there was a special request for them, considering SMEs large number and their economic potential. 'Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and thus, all this objectives are

crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, represents a major step towards an improved business environment for SMEs and aims to promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the involved stakeholders, which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals' (European Commission, 2009). In the 27-member EU, there are about 23 million SMEs, representing 99% of all EU companies, employing around 75 million people.

The IFRS for SMEs should be applied by small and medium-sized entities. There are several ways to define such companies in each state according to specific legislation. As an objective, to be no difference in understanding the concept in Section 1 of the standards, small and medium-sized entities are defined as not having public accountability and by publishing general purpose financial statements for external users (IASB, 2009a).

The objective of IFRS for SMEs is to provide a framework, to generate relevant information, reliable and useful, characteristics of a set of high-quality standards, easily understood to be applied at SMEs level (Grosu and Bostan, 2010, p.2).

The purpose of this article is to provide a framework of history of IFRS for SMEs, the differences between IFRS for SMEs and European Accounting Directives, to realize an analysis of benefit/cost report and to see what is the general European reaction regarding standards' implementation.

## **2. THE HISTORY OF IFRS FOR SMEs**

International Accounting Standards Board (IASB) initiated in 2001 a project to develop accounting standards appropriate for small and medium entities (SMEs) due to special need to develop this niche. Because of these, the Board set up a working group of experts to provide information, case studies and feed-backs on the issues, and although potential solutions.

First document referring to standards for small and medium entities was published in June 2004, by the IASB in the discussion paper "Preliminary Views on Accounting Standards for SMEs".

The major issues set out in the discussion paper were (IASB, 2009b, p.6):

- Should the IASB develop special financial reporting standards for SMEs?
- What should be the objectives of a set of financial reporting standards for SMEs?
- For which entities would IASB standards for SMEs be intended?

- If IASB standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?
- May an entity using IASB standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB standard for SMEs?
- How should the Board approach the development of IASB standards for SMEs?
- To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?
- If IASB standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?
- In what format should IASB standards for SMEs be published?

In 2004 and 2005, the Council reviewed the issues raised by those who answered to the clarifications proposed by the discussion document and concluded that an International Financial Reporting Standard for SMEs (IFRS for SMEs) is absolutely necessary. In the same time, many countries wanted to adopt IFRS for SMEs rather than standards developed locally or regionally. Therefore, Council decided, as a next step, to publish an exposure draft of IFRS for SMEs. For this purpose, the Council decided to hold meetings with the participants in economic life. Those who prepare financial statements for SMEs and those who base their decisions on them (stakeholders) discussed changes in the recognition and measurement principles presented in IFRS, in order to use them in IFRS for SMEs.

In February 2007 the IASB published an exposure draft of a proposed IFRS for SMEs. The aim of the proposed standard was to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed entities and are based on full IFRSs, which are developed to meet the needs of entities whose securities are traded in public capital markets. The proposed standards were based on full IFRSs with modifications to reflect the needs of users of SMEs' financial statements and to consider cost-benefit reports. The exposure draft proposed five types of simplifications of full IFRSs, which were referring to (IASB, 2009b, p. 8):

- Some topics in IFRSs were not included because they are not relevant to typical SMEs. However, for some of those omitted topics, the exposure draft proposed that if SMEs encountered circumstances or a transaction that are addressed in full IFRSs but not in the IFRS for SMEs, then they would be required to follow the relevant full IFRS;

- Where an IFRS allows an accounting policy choice, the exposure draft included only the simpler option but proposed that SMEs should be permitted to choose the more complex option by reverting to the relevant full IFRS;

- Simplification of many of the principles for recognizing and measuring assets, liabilities, income, and expenses that are in full IFRSs;

- Substantially fewer disclosures;

- Simplified redrafting.

Testing program as proposed by the IASB exposure draft of the IFRS for SMEs was applied to the 116 small entities (each of them with a total of up to 50 employees) in 20 countries.

The three main problems identified in the tests were: the need to use fair value as the main method of evaluating the closing of each financial year due to market fluctuations; the need to simplify the information presented and the need to use full IFRSs to address certain situations much less developed in IFRS for SMEs.

Following the responses received and the deliberations of the Council, the final form of the IFRS for SMEs has undergone several changes, including: the final document should be independent by IRFS, but eliminates the cross-referencing to full IFRS, to national regulations and any changes therein; the use of multiple accounting policies on investments, of impairment of equity instruments; options are not allowed; assessment of costs and expenses for tangible and intangible assets, which should be recognized as research and development costs and borrowing costs.

After five years of consultations and debate, in July 2009 the IASB issued International Accounting Standards for Small and Medium Enterprises.

At the European Union level, the body responsible for adopting International Financial Reporting Standards and International Accounting Standards (EFRAG) proposed the application of the International Financial Reporting Standards for SMEs on a representative group of States, starting with August, 2009. The mission of the SME Implementation Group is to support the international adoption of the IFRS for SMEs and monitor its implementation. This representative group of 21 members was selected based on their knowledge and experience on SMEs reporting. The selection pursued the criteria of fairness, related to geographical location.

After the implementation, representatives of the European Commission and the European Financial Reporting Advisory Group will be those who will supervise the mode of action of the countries involved in this project. Considering that, the implementation questions raised by users of the IFRS for SMEs will to be answered and, as a result, it will be decided which ones need to be

published in the implementation guidance. In this context, it becomes necessary to reach a consensus on what that guidance should be, to develop proposed guidance in the form of questions and answers that would be made publicly available to interested parties and to request IASB to approve them to be issued. The questions and answers are intended to be non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions. The recommendations are for implementation issues that cannot be addressed by questions and answers, and also for new and amended IFRSs that have been adopted since the IFRS for SMEs were issued or last amended.

### **3. THE MAIN INCOMPATIBILITIES BETWEEN EUROPEAN ACCOUNTING DIRECTIVES AND IFRS FOR SMEs.**

The differences between European Accounting Directives (78/660/EC and 83/349/EEC) and International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SME) are an important topic discussed around European Union's economic institutions. In November 2009, European Commission asked for EFRAG's help concerning these differences. This Institution's role was to find out exactly which points of the IFRS for SMEs are incompatible with the EU Accounting Directives.

The incompatibility has the following meaning, according to European Commission: 'An accounting treatment required by the IFRS for SMEs is not permitted under the EU Accounting Directives' (EFRAG, 2010B).

After the study of those two referentials, EFRAG found the next sixth important differences or incompatibilities (EFRAG, 2010c):

**Extraordinary items: income or charges.** According to IFRS for SMEs, in the statement of comprehensive income it is not allowed to present or describe any item of income or expense as being extraordinary (IASB, 2009a, art 5.10). E.U. Directives classified the activities of a company as being ordinary or not. If during a fiscal period there are incomes or expenses that can't be classified as being ordinary, than it is necessary to define them as being extraordinary income or extraordinary charges. (EC, 1978, Fourth EU Accounting Directive, art. 29.1).

**Financial instruments at fair value.** According to IFRS for SMEs, at the end of the reporting period, all the financial instruments mentioned in section 12 should be evaluated using fair value (IASB, 2009a, art.12.2) and all their modifications should be recognized in the statement of comprehensive income. There are some exceptions regarding equity instruments and some contracts related to such instruments. E.U. Directives choose the purchase price to value an item at

the end on the reporting period (EC, 1978, Fourth EU Accounting Directive, art. 32). Although we find the fair value concept in the text of the directives, European legislation gives permission and does not impose to each member state to request the valuation of financial instruments using fair value method for all the companies or for a group of them (EC, 1978, Fourth EU Accounting Directive, art. 42a). This is not an option when we speak about consolidated accounts. In this conditions we refer to liabilities held as a part of a trading portfolio, derivate financial instruments and not at the elements mentioned in art 42.a.4 (EC, 1978, Fourth EU Accounting Directive, art. 42a). The difference is that the IFRS for SMEs require more elements than those listed in the Fourth Council Directives, in particular for financial liabilities to be measured applying fair value method (EFRAG, 2010a, p. 86).

**Useful life of goodwill.** According to IFRS for SMEs, goodwill should be recognized and measured at the cost level less accumulated amortization and accumulated impairment losses. According to IFRS for SMEs, if the company doesn't have a rational method for establishing the useful life of goodwill, this has to be presumed to be 10 years (IASB, 2009a, art. 19.23). European Union Accounting Directives, referring to the goodwill as a positive consolidated difference, mentions that it should be subtracted immediately from reserves (EC, 1983, Seventh EU Accounting Directive, art. 30). The article no.34 of the Seventh Directive also specifies a 5 years useful life of goodwill (EC, 1983, Seventh EU Accounting Directive, art. 34). Regarding goodwill, IFRS for SMEs are not compatible with the E.U. Directives, which do not allowed a period of more than 5 years for goodwill amortization (EFRAG, 2010a, p. 152).

**Immediate recognition of negative goodwill.** According to IFRS for SMEs, negative goodwill should be recognized immediately in the income statement (IASB, 2009a, art. 19.24). Council Directives do not allow the immediate recognition of the negative goodwill in financial statements if it is possible that goodwill to be related to a future negative result (EC, 1983, Seventh EU Accounting Directive, art. 31). Concluding, the recognition of a negative goodwill is treated differently in the two referentials.

**Presenting unpaid capital as an offset to equity.** According to IFRS for SMEs, 'the requirement to present the amount receivable from equity instruments, issued before the entity receives the cash or other resources, as an offset to equity and not as an asset' (IASB, 2009a, art.. 22.7(a)). According to CEE Directives, unpaid subscribed capital appears as asset (EC, 1978, Fourth EU Accounting Directive, art. 9).

**Reversal of impairment loss recognized for goodwill.** According to IFRS for SMEs, 'an impairment loss recognized for goodwill shall not be reversed in a subsequent period' (IASB, 2009a, art. 27.28). According to Fourth Council Directive it is necessary to reverse goodwill

impairment losses if the reasons for which they have been recognized are not applying anymore (EC, 1978, Fourth EU Accounting Directive, art. 35).

#### **4. THE HARMONIZATION OF THE EUROPEAN UNION ACCOUNTING SYSTEMS BY USING IFRS FOR SMEs**

The objective of introducing IFRS for SMEs ‘is to provide a framework, to generate relevant information, reliable and useful, characteristic of a set of high-quality, easily understood to be applied at SMEs level’ ( Grosu and Bostan , 2010, p.2).

After the publication of IFRS for SMEs in 2009, many opinions appeared concerning the need for their implementation at the European Union level. European Commission decided to centralize all those opinions. With the objective of gathering the view of EU stakeholders, between November 2009 and March 2010 there was a public consultation on the IFRS for SMEs by using ‘Questionnaire on the public consultation of the IFRS for SMEs, promoted by the European Commission. The consultation document had 12 questions regarding possible application in the EU, the impact on the role of Accounting Directives and some initial reactions to them. European Commission received 210 responses from 26 Member States and four non-EU states, from public authorities and accounting standard setters (14%), preparers (42%), users (12%), accountants and auditors (32%) (European Commission, 2010a).

At the European Union level there are various opinions on widespread use of IFRS for SMEs within Europe. The general opinion is that IFRS for SMEs should be used all around Europe. Most of those who expressed an opinion on it believe that the Standard are best suitable for Large and Medium- sized companies, for international groups, for subsidiaries and for companies active internationally. They also believe that by using them, harmonization and comparability will be improved and foreign investors will be more interested on European affairs.

On the other hand all of them agreed on the necessity of a cost/benefit analysis of implementing the standards, before any decision is taken. They also mentioned the comparability between full EU IFRS and IFRS for SMEs.

Using IFRS for SMEs as the regulatory legal framework for financial reporting has its own benefits:

- First of all these standards allow international comparability between financial reports of a large number of entities;
- They facilitate the mobility of accounting and audit services within the EU;

- The standards provide more harmonized information from which stakeholders should benefit. We are referring here to investors, business partners and creditors. Also, the process of decision making based on harmonized information could and can result in lower costs of capital;

- By implementing the standards, the same accounting language is used for the transmission of information;

- These standards give an important support to the prepares about consolidated accounts;

- Companies that have subsidiaries in different member states can use these standards; this way, they will avoid problems reflecting different accounting methods used by one or another;

- Facilitate cross border trade;

- Facilitate foreign mergers and acquisitions;

- Facilitate international growth of companies ( European Commission, 2010a);

- Using the same standards will increase confidence in global financial reporting and will increase satisfaction of the needs of users of financial statements (Grosu and Bostan , 2010, p.3);

- Increased comparability will make the financial statements analysis easier.

According to Grosu and Bostan, I. (2010, p.2) the application of IFRS for SMEs ‘will lead to a high degree of comparability of financial statements, increasing the confidence of users of SMEs in financial reporting and will cause a significant reduction in costs for national reporting standards’.

In the same time we have some important costs of implementing the IFRS for SMEs:

- The standards are too complex and applying them means new methodology, redesign the internal processes, training staff on new accounting system;

- Stakeholders are used to current accounting rules so it will be difficult and costly to implement new rules;

- The need to prepare a second set of accounts for tax purpose can be pricy, if the government ask for it and if there are several important differences between the IFRS for SMEs and national regulations. The main differences are those regarding tax, profit distribution, accounting regimes;

- Companies which are active only locally and have a limited number of shareholders have no benefits. For national entities, harmonization under the current framework is sufficient;

- The development of a common educational framework for accountants ( European Commission, 2010a).

It is known that IFRS for SMEs are characterized by greater flexibility on the implementation of the professional reasoning, so it is possible that, applying the same standard, the same transaction to be recognized and reported differently in financial statements (Grosu and Bostan , 2010, p.3).

Most of the EU public authorities, standard setters believe that the adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework. Those who agree with it believe that in this way ‘will increase harmonization of the single market’ (European Commission, 2010a). In the same time, most European countries believe that it is necessary to reach compatibility between the standards and the directives and that it is not logical to have a Member State option regarding IFRS and not to allow the adoption of IFRS for SMEs (European Commission, 2010a). On the other hand, there are voices who say that the most appropriate approach would be to make amendments to Accounting Directives to ensure the compatibility with the international regulations. In this way, complexity, administrative burden and uncertainty will be avoided (European Commission, 2010a).

Regarding the possibility and not the obligation of adopting IFRS for SMEs by member states, the general opinion is that they should be applied. In this way, each member state will have the opportunity to compare the standards with the national regulations, to decide the criteria and the area for adoption and to analyze if the standard is compatible with the tax and capital maintenance laws. There are also voices which say that ‘in order to benefit from the adoption [...] a uniform and world-wide application would be necessary’ (European Commission, 2010a, p. 11). Everyone agreed that there could be a better solution for the adoption of the standard. Most of the respondents pointed out that the better solution is to revise the Accounting Directives.

Between the IFRS for SMEs and the European Accounting Directives are a lot of differences as we showed in the previous section. European Union must find a solution to eliminate them. The European Union members pointed out some possible solutions. A radical point of view is to amend the Directives and ‘to preserve international comparability and allow full application of the IFRS for SMEs’. Some suggest the opposite solution: to amend the IFRS for SMEs so that they will be in accordance with the directives. Another point of view suggested asking the member states to resolve the problem. Most of the respondents believe that the companies should make a choice between the standards and the directives (European Commission, 2010a, p.13)

The most important question is about the future role of the Accounting Directives in the Europe Union. Some believe that Directives must act as a ‘transparency benchmark’ between national and international standards. Most of the respondents believe that ‘the Directives must be kept as the basis of European harmonization’ (European Commission, 2010a, p.14 ).

It is very important for us to see which was the Romanian position regarding the importance and the adoption of IFRS for SMEs.

Romanian Ministry of Public Finance believes that IFRS for SMEs are not suitable for widespread use within Europe choosing the Directives instead. But according to it, European Accounting Directives must be reviewed and modernized to achieve more stability and comparability for the accounting information. In the opinion of Romanian legislators, small companies, those which have securities traded on a regular market and those that are part of a group would benefit from the adopting the standards. The users of the financial statements would not benefit from the international comparability assured by the IFRS for SMEs especially because small companies have only local activities. The Romanian Ministry of Public Finance believe that there must be an 'unitarian' European accounting legal framework, including the IFRS for SMEs and the Directives. That is why the IFRS for SMEs must be mandatory only for consolidated annual financial statements. In any other situation, it is the member state or company choice to use it. Regarding the incompatibilities between the IFRS for SMEs and the Accounting Directives, Romanian's position is that the Directives should be revised in order to avoid differences in the following areas: cash flow evaluation, financial statements, extraordinary items, valuation rules. (European Commission, 2010b)

The Body of Expert and Licensed Accountants of Romania (CECCAR), contrarily to the Romanian Ministry of Public Finance, believes that IFRS for SMEs is suitable for widespread use within Europe for medium companies. CECCAR considers that increased comparability of financial statement and of accounting information will be beneficial to the users of financial information. In the same time, the Body mentions that the IFRS for SMEs should be adopted within the EU accounting legal framework only if better criteria of defining SMEs will be provided. The IFRS for SMEs must be mandatory for all the entities taken into consideration at the European Union level and the enforcement of the IFRS, without local approval, must not be an option. CECCAR's position is that there must be only an accounting evaluation criteria and we should apply the Directives or the IFRS for SMEs.

As we can see there is a different opinion in EU, also in Romania, concerning the IFRS for SMEs and their importance. In this situation we can put into question if there is a harmonized accounting in Europe or not.

## 5. CONCLUSIONS

The necessity of having accounting standards for small and medium sized companies is an important debate in European Union especially because European directives do not ensure harmonization of accounting regulation for SMEs in Europe. Nowadays, European Union legal framework does not provide differential reporting standards or regulations for SMEs. The accounting rules applied by the European Union countries are presented in The Fourth and The Seventh Directives, but according to the majority, it is not enough. In 2009, after analyzing for several years the necessity of developing a set of standards that should be applied by the SMEs, IASB developed new IFRS for SMEs. They are important because of some simplification on recognition and measurement, on disclosure and on documentation requirements. The Standard should be used by any SMEs. There are some countries that have already endorsed the Standard but EU is still examining it.

The most difficult issue is the fact that, between the Directives and the IFRS for SMEs, there are a lot of differences regarding the recognition of extraordinary items, the use of fair value method, the useful life of goodwill, the immediate recognition of negative goodwill, the recognition of unpaid capital as offset or to equity or asset and the reversal of impairment loss recognized for goodwill.

Starting from the differences between those two, there is an European debate regarding the adoption of the Standard in European Union and on the cost and the benefit of adopting it, especially on the most appropriate method of adopting it - provided within the EU accounting framework or not. In the same time it is put into question the future role and modification of the Directives. As we have seen there are strong and significant differences between the EU countries concerning these issues.

Small and medium enterprises are very important for the EU economic environment and financial understanding and communication is crucial, that is way, we believe that SMEs accounting should be subject of the European regulation and not of a national one. IFRS for SMEs must be taken into consideration by European Commission in defining a common accounting framework for SMEs. All the SMEs from EU should apply the same accounting rules. If they should apply the Directives or the IFRS for SMEs it's hard to say. In our opinion IFRS for SMEs represents the best choice. Taking into consideration this, we believe that there must be some transformation in EU regarding accounting framework and fiscal policy. European Commission and the member states of the EU, should never forget that the main objective is the harmonization.

There, will not be any harmonization process if each member states has some national accounting regulations and the choice of adopting or not the international standards.

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# MERGERS - SUCCESS OR FAILURE?

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**Abstract:** *Mergers are transactions of great importance, not only for organizations involved, but for many stakeholders. Success or failure of such enterprises may have consequences enormous for the shareholders of an organization, creditors, employees, competitors and community. Empirical evidence indicates a high rate of failure of mergers in terms of create value for shareholders. This study examines the causes of merger failure and offers a possible solution to make the merger successful. The internal audit has evolved from its traditional role to an active advisory. Internal auditors can ensure successful merger process.*

**Keywords:** mergers, internal audit, merger failure, merger success

**JEL Classification:** M41, M42

## 1. INTRODUCTION

Financial and economic crisis covered the entire world and its consequences are difficult to assess. One thing is certain - the fear of tomorrow, with all its consequences. In this framework of uncertainty and unknown, the only salvation for companies to strengthen a certain position on the market and gain advantages in terms of the transaction tax is to restructure the company by merger. This transaction is a juridical solution for companies in inability to pay, representing one of the juridical and economic arrangements to enable the continuation of financial recovery.

Many writers and business analysts have argued that mergers are doomed to failure and that merger success is somehow in contradiction with the reality of business world. Of the total of merging companies 80% of them do not create value (Freedman, 2010).

In fact, most mergers are proving a difficult process, with unknown risks that ultimately translate into a loss of sales, and especially with the loss of valuable people in your organization. A fair and disciplined approach to the merger increases the chances of success.

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## **2. MERGERS, ACQUISITIONS AND CONGLOMERATES**

Mergers, acquisitions and business combinations are often analyzed as if they are the same, but a clear distinction is needed.

Merger is the operation by which two companies join together to form a single one. This enables the consolidation and increasing competitive capacity of enterprises.

The acquisition is a business combination in which one entity obtains control of the net assets and operations of another, in exchange for a transfer of assets, employment, debt or issuing shares.

Coglomerates are bringing together of separate enterprises into one economic entity as a consequence of an undertaking by the net assets and operations control to another.

## **3. WARNING SIGNS**

The merger decision depends on the outcome of due diligence. To ensure the success of the merger is necessary to take into account the warning signs (Vulpoi, 2010):

- financial warning signals, including termination of collaboration with internal/external auditors, changes in accounting methods, sales of shares by sources inside the company management, employees. These actions may indicate fraud and/or possible insolvency;
- warning signals from the operations area, which covers, among other, the turnover is very high or very low and may indicate instability in the company's activity;
- warning signals on debt, which are related to the company's exposure to potential dispute with State bodies, customers, employees;
- warning signals about the transaction itself, which may relate to potential violations of law resulting from the transaction or tax and accounting objectives diverge on the transaction.

## **4. CAUSES LEADING TO FAILURE OF MERGER**

Previous experience of project managers in the merger is not obligatory but can help a lot to learn from mistakes.

This may be a cause that can explain the failure of mergers but the idea is exaggerated. How many managers have gone through in their lives even a merger ? So the experience of managers in the merger can not be discussed, but managers should consult with a whole team of specialists: lawyers, accountants, tax consultants, specialists in marketing and management.

Another cause of merger failure is the lack of due diligence analysis. Due diligence is a detailed analysis of the company being acquired / acquiring about finances, management, assets.

About the due diligence is to say that the team performing the due diligence at least include accountants to review financial statements, lawyers to investigate exposure to various liabilities to other persons and tax experts. It is important to note that these teams of accountants, lawyers and tax experts must be independent to avoid conflict of interest.

Among the issues examined in the process of "due diligence" are:

- review of financial statements (to confirm the existence of assets, liabilities and equity capital components in the balance sheet to determine the "health" based on the company's financial profit and loss account);
- review and management aspects and the company activity (to determine the quality and reliability that may be made to understand financial statements and any rights and obligations contingent, whose impact is not reflected in financial statements);
- review the degree of conformity with legal regulations (to check the possibility of unpleasant future juridical implications arising from past activities of the company);
- review of transactions and documents (to ensure that documentation is adequate and that the transaction is appropriate to transaction structure);
- fiscal review (to check the compliance of tax regulations and company practices that are outstanding liabilities to creditors budget).

The risk of failure can be avoided if you examine the manufacturing process, characteristics, product design, refusal rate, business advertising, marketing, customer number, employee profile. The decision to buy a company should not be influenced by the fact that the headquarters is located in a building that holds office on the beach or in luxurious buildings.

Cultural differences can create major problems. If a company is conservative and the other company is transparency and open, a contradiction appears. An example is the merger of Daimler and Chrysler.

Usually buyers neglect organizational culture for a more detailed analysis of systems and business processes. This makes them sometimes during the integration process to impose some predefined schemes and thus to be hit by lack of acceptance and resistance to change.

Managers must be aware of cultural differences between organizations so they can avoid conflicts with frequent communications, for employees, customers and other stakeholders interested in post-merger integration success.

There is no good or bad corporate culture. There is only one variety of cultures and it is the duty of those who lead the integration process to seek ways to make them compatible.

Another cause that leads to failure of merger is the lack of communication that creates uncertainty, insecurity among employees, and when employees are needed, it is possible for them to leave.

Often employees complain of uncertainty, conflicting rumors and insecurity. They will ask the questions: Will be restructuring? I will be moved to another department? What will happen with my boss?

I find it shocking that in the majority of restructuring, the message refers to the fact that everything is fine and there is no worry. Rather, I would recommend the message: yes, the integration will not be easy, but it is a great opportunity, not a problem.

Another aspect to note about the causes of mergers failure is that very few companies that have managers who have the ability to control companies in different industries. Over 42% of conglomerate mergers have failed.

Before to achieve a conglomerate merger, managers should evaluate this issue and possibly to receive specialist advice.

Also no less important is that to define roles, responsibilities, incentives and structures clear enough.

Immediately after the merger, most of the functions will be doubled, and the integration team should decide and communicate the responsibility for actions during the transition and after, if they want to support productivity and employee morale. Actual acceptance occurs if people can imagine themselves and their future in the new combined entity - which includes a clear understanding of what is required of them and opportunities for personal development (career, compensation and benefits).

I believe that those causes are relative. It is ignored in the literature that often the decision on the merger has to take into consideration the audit reports. Making the merger should take place only if the auditor expresses an unqualified audit report at the end.

## **5. INTERNAL AUDIT ENSURE SUCCESSFUL MERGER PROCESS**

Internal auditing profession faces many challenges in the new millennium. Driven by minimizing costs and increasing profits or at least maintain a reasonable level, departments of internal audit desperately are seeking ways to add value to an organization and try to prove they can still "do business" for their employers.

Audit role has changed over the years from traditional to a proactive role based business consultancy.

Unfortunately, even if the role of internal audit has extended in the case of mergers, internal audit does not contribute effectively than the due diligence phase. Perhaps one reason is that managers believe that internal auditors do not have the necessary skills to be actively involved in all stages of a business.

In 1998 the Institute of Internal Auditors (IIA) conducted a study and randomly asked auditors to explain what role they had in the fusion process (Davison, 2001). The responses were as follows:

- most of the auditors who responded said that they had only carried out the audit report in terms of mergers;
- audit department heads were involved in preliminary discussions on any new merger;
- most respondents felt that greater value could be added in the merger if the role of the audit department would extend;
- most respondents agreed that cultural differences and poor planning were the first two reasons for merger failure;
- almost all respondents felt that they needed specialized training in merger.

Therefore there is a great need for further study regarding the role of audit in case of merger. The internal audit function can improve the quality of management in the merger process.

Managers often do not understand the importance of internal audit in all stages of a merger. In an international survey conducted (Selim, 2002), it is clear participation of internal audit in various stages of the merger:

- strategic planning stage – 27 %;
- implementation of the merger plan stage - 14%;
- negotiation stage of the exchange ratio - 82%;
- the implementation stage of the merger - 86%;
- post merger stage - 41%.

Internal auditors should try to involve as early as possible in the merger process. To contribute effectively and add value to the strategic planning stage, auditors should follow:

It is important that internal auditors should receive information about possible mergers. Advice on systems and processes for the merger could reduce the risk. The target company in a merger may have different systems. An effective documentation can reduce the costs of integrating those systems and processes within the newly formed company. Auditors can calculate the audit risk for the target company.

Unfortunately, internal audit departments usually have little or no involvement in the merger process when the strategy of merger is elaborated. Company management often believes that the role of internal audit begins after the merger. Compliance with the above make half the battle to be won before.

Internal auditors should consult with specialists in various fields such as finance, human resources and legal departments.

Working with external consultants may increase the chance of successful fusion. External experts may be external auditors or a firm. Internal audit can provide vital information to management about the value of the acquired company, its financial situation and any deficiencies.

So given that often the decision on the merger takes into account the audit reports from the entities involved, we felt that the financial auditor's role is a successful coordinated successful merger process. If the auditor's opinion is with reserves, then there is a reason to reject the proposed merger and the merger will not be a failure.

To reach a position to express an opinion on the merger, the role of the auditor is to verify financial information, that has both utility: internal (management and business management) and an external utility for third party information (shareholders, tax authorities, customers, suppliers, creditors, banks, etc..). This control is exercised in order to protect property and ensure the credibility of information published.

According to ISA 315, "Identifying and assessing risks of material misstatement in understanding the entity and its environment" the auditor should obtain sufficient information about the entity and its regulatory framework. According to the category the entities belongs, in the case of merger, should apply other normative acts as shown in Table 1 - Normative acts.

**Table 1 – Normative acts**

| <b>Type of entity</b>             | <b>Normative act</b>   |
|-----------------------------------|--|
| Commercial companies              | Law 31/1990 concerning commercial companies  |
| Banks                             | National Bank of Romania (B.N.R.) no. 5 / 2000 concerning banks' merger and division   |
| Loan Cooperatives                 | B.N.R. nr. 6/2003 concerning merger and division of credit cooperatives  |
| Insurance companies               | Insurance Supervisory Commission (CSA) no. 113111/2006 to implement the Norms concerning approval of the merger or division of insurance companies               |
| Insurance and reinsurance brokers | Insurance Supervisory Commission (CSA) no. 113111/2006 to implement the Norms concerning approval of the merger or division of Insurance and reinsurance brokers |
| Private pension funds             | Supervisory Commission of Private Pension System (CSSPP) no. 14/2008 concerning protection of participants in the merger of private pension funds ..             |
| Non-bank Financial Institutions   | Chapter. 4 of Law no. 93/2009 concerning non-bank financial institutions.  |

The decision on the merger must have regard to audit reports from entities involved in the merger.

Making the merger should take place only if the auditor expresses an unqualified audit report at the end.

The auditor should obtain sufficient information about the entity and its framework. The auditor has to provide users of accounting information on compliance with generally accepted accounting principles and internal procedures established by the management company and financial statements, changes of financial position and other information supplied for stakeholders.

## 6. CONCLUSION

The failure of mergers is determined by a number of factors including: poor experience in merger processes, failure analysis of due diligence, strategy management incompatibility between the companies involved in the merger, the inadequacy of culture workers in the companies, unverify the financial position, lack of communication between manager and employees.

Any merger that "is respected" is that preceded by a process of due diligence process by which the company examines the candidate's health business, ensuring that no unnecessary exposure to risk and unpredictable.

Managers should consult with a whole team of specialists: lawyers, accountants, tax consultants, specialists in marketing and management before the merger procedure.

A coherent and consistent communication plan may lead to the success of the merger or at least employees will not be unsatisfied and hence will not be declining productivity.

Because there are a variety of cultures, managers should seek ways to make them compatible.

Determining the causes of merger's failure is useful to anticipate a failure. It is ignored in the literature that often the decision on the merger is based on the audit reports. Making the merger should take place only if the auditor expresses an unqualified audit report at the end.

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# ECOLOGICAL MODERNISATION OF THE TOURISM

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***Abstract:** The article examines the capacity of the Ecological Modernisation Theory (EMT) as a paradigm for environmental policy making within the tourism destinations to improve their sustainability, competitiveness and commercial success. To cope with the challenges and threats the tourism faces, of great importance is setting-up an innovative policy-making model, to bring new perspectives, interactions between stakeholders and policy instruments to balance the economic growth and environmental concerns. While the ecological modernisation within the tourism industry makes necessary the introduction of new technologies and management strategies at the company level to bring about economic and environmental benefits, the state needs new policy instruments and approaches to deal with these new paths. Policy making process and ecological restructuring of the tourism sector is analysed using as a tool the "policy network" analysis.*

**Keywords:** Environmental Governance, Sustainable Tourism, Ecological Modernisation, Environmental-oriented Innovation, Policy networks, Romania;

**JEL Classification:** C78; D78; D85; O21; O31

## **I. INTRODUCTION:**

Tourism is one of the most important economic sectors that can help recovering the economies during economic crisis, especially in the countries with significant natural and anthropogenic amenities. Even if the economic crisis affected all the sectors, including tourism, the reality shows that the tourism market has a growing share in the global market, the competitiveness and development strategies being the key of success. In this regard it is clear that the tourism industry must assume more responsibility for the environment and quality of life in tourism destinations. Furthermore, the local authorities have a central role to play in achieving sustainable responsible tourism through commitment to supportive policy frameworks and adequate funding.

The World Summit on Sustainable Development (WSSD) in Johannesburg called upon local authorities and tourism administrations to develop through multi-stakeholders processes-destination management strategies and responsible tourism guidelines to create better places for the host communities and tourists.

Tourism sector in Romania is currently attempting to deal with various complex environmental problems that cannot be neglected, because the environmental conditions determine the demand for tourism products. Ensuring the economic, social and environmental sustainability of Romanian tourism is crucial both as a contribution to "sustainable development" in Romania and for the viability, continued growth, competitiveness and commercial success of this economically highly important sector. Many environmental problems in tourism resorts are associated with mass tourism in high season, pressure on the local resources, low infrastructure development and a weak environmental policy agenda. The challenges for sustainable tourism are linked on the one side to the consumption patterns (in particular considering the seasonality, consumer/tourist behaviour and tourism travel) and to the other side to its production patterns (i.e. the supply of tourism products, services and activities in tourist destinations, including mobility).

Tourism destinations in Romania are characterized by a high population density in a small area, an extraordinary ecological importance and a high economical value. Thus, there are intensive and multiple uses and various actual and potential conflicts. At the same time, the tourism destinations show a great dynamic and a further intensification of the activities in the future is predicted. The pressures exerted by tourism on the tourism areas are even more damaging as these are fragile zones: ecosystems are disrupted by tourist developments, or may even disappear once roads, holiday homes, dykes, marinas, amusement parks, sky slopes, etc. develop. Moreover, underground water supplies may run dry after heavy use of fresh water (hotels, swimming pools, showers on beaches, golf courses, urban-style parks, etc.). The consumers' behaviour, backed by environmentally sound practices and behaviour on the part of producers (tourism industry and local administration) is an important factor that contributes to the quality of tourism destination.

This paper sets out critical responses to the challenge of changing the nature of tourism development to a more ecological, sustainable model. These dimensions have at their core the issue of "greening the tourism sector", and therefore focuses mainly on policy making process at local level within so called „*policy networks*”, which builds up on a case study that will be discussed on within next sections. Broadly speaking this article attempts to analyse the institutional structures within which tourism operates; to identify the environmental, organisational, management and finance issues involved in the development of sustainable tourism; to assess the role of public and private institutions in facilitating, promoting, managing and distributing the benefits from the

development of sustainable tourism in conjunction with local entrepreneurs, resource controllers, tourists and communities; to examine the extent of, and potential for, the formation of partnerships in creating effective institutional structures; to identify institutional good practices and innovation against the background of the opportunities and constraints tourism faces; to identify changes and innovations in institutional arrangements, discourses and practices, and to formulate models of the structural patterns which best allow tourism to make effective contributions to regional development. The study investigates what strategies will further this reorientation and if these strategies will accelerate sustainable tourism in general.

The paper is of particular relevance to tourism destinations in wealthy nations and to those fast-growing prosperous tourism destinations in low- and middle-income nations. Moreover, the investigation looks on the extent the tourism sector in a tourism destination in Romania has ecologically restructured and what policies approaches are suitable for the greening of tourism industry.

## **2. TOURISM- ENVIRONMENT RELATIONSHIP AND THE POLICY MAKING PROCESS**

The tension between economic growth and environmental protection lies at the heart of environmental politics. Considering the challenges and threats the tourism is facing with, of great importance for the tourism destinations in Romania is the innovation in setting up tourism policies in order to enrol in competition with Western European tourism destinations. These policies should involve new perspectives, interactions between stakeholders and policy instruments to achieve the strategic goal of sound tourism development while considering the environmental concerns. The local governments in tourism destination have direct influence over the major supply side decisions that both directly and indirectly influence tourism demand.

There is increasing evidence that the local governments (local councils) can not manage the environmental management of the tourism destinations without devolving a part of their tasks to the private sector. This means that the three actors involved in tourism and environmental management: the state, the private sector and civil society have to be reformed to promote good governance- a process whereby societies or organisations, with local government at its core, make their important decisions, determine whom they involve in the process and how they render account.

Over recent years, the tourism industry has increasingly pressured governments around the world to liberalise trade and investment in services and is likely to benefit tremendously from the General Agreement on Trade in Services - a multilateral agreement under the World Trade

Organisation (WTO). Meanwhile, the voices of the tourism industry are urging for a cautious approach towards globalisation, also in terms of environmental impact. There are voices that are questioning the tourism globalisation in what concerns the preserving of the environment, and implementing sustainable development programmes.

“If the tourism development is dominated by the public sector then is unlikely to be developed at the optimal rate from the economic point of view” (Cooper, et. al., 1998, p.130). In this regard, the private sector could play the most powerful role in managing tourism in tourism destinations. Profit and business survival on long term depends on maintaining an attractive and clean environment in tourism destinations while specific operational costs savings can be achieved with improved technology for energy, waste reduction and low water consumption. Furthermore, the role of consumers (tourists) must not be neglected. According to Lipman (1994, p.1), “with increased number of consumers becoming more environmentally conscious in their purchase behaviour, environmental practices will become a decisive factor in travel and tourism purchases”. The solution is a balance between public and private sector involvement in the tourism planning. Adequate policies and management interventions can play an important role in modifying the rate and direction of the interactions between tourism "producers" (local governments and tourism industry that provide tourism services, infrastructure and products, etc.) and "consumers" (tourists), and between them and the resource base, consequently avoiding and mitigating the impacts on environment in tourism destinations.

Hawkins and Middleton (1998, p.56), stated that the “local government has a changing role in the tourism development”. They asserted that, traditional planning methods are no longer adequate for coping with rapidly moving social and economic forces and dealing with the needs of post-industrial societies. Consequently Hawkins and Middleton (1998, p.66) they have shown that “*change has forced the pace in privatising and in forcing proactive partnerships with the private sector to achieve wider strategic goals that cannot be achieved by the public sector alone*”.

## **2.1 Sustainable development versus Ecological modernisation**

The concept of "sustainable tourism" is based on the more general concept of "sustainable development". As Buttel (2000, p.59) stated the concept of sustainability and sustainable development had real “*shortcomings in providing guidance and vision*” for the future evolution of the environmental policy. The concept was popularised, questioned, interpreted by innumerable users and everyone seems to impose its own interpretation on it. Probably it was only an “empty

slogan whose time had come without anyone really knowing what it meant” (Redclift 1994, 3). As a theory, “sustainable development” promises something to everyone. Lele (1991, p.613), ironically stated that the sustainable development is “a metafix that will unite everybody from the profit minded industrialist and risk minimising subsistence farmer to the equity seeking social worker, the pollution concerned or wildlife loving First Worlder, the grow maximising policy maker, the goal oriented bureaucrat, and therefore the vote counting politician”. Semantically, the concept of sustainable development fused two words derived from verbs with contradictory meanings. The word “sustain” means perpetuation and balance, while “develop” is a dynamic word that involve expansion and transformation. If the two words cannot “accommodate” their meanings, then the term’s relevance is corrupted. On the Round Table on Sustainable Development, Vitalis (OECD, 2001) asserted that “ironically, the term sustainable development implicitly assumes that the development is unsustainable by definition, and must be altered or tempered to perpetuate growth”.

Many environmental issues that are clearly identified in tourism destinations remain only in a small extent addressed because the governing authorities have found difficult to turn the concept of sustainability in practical policies and they lack the political will to impose restraints upon economic actors, but also to cooperate to bring about economic and ecological benefits. Moreover, regulation is not a linear process where policy-makers enforce a particular policy with a distinctive and well-defined effect. Policy success depends on many factors and particularly on the co-operation of different groups of society in tourism destinations. Based on the sustainable development concept, environmental policies in Romanian tourism destinations lack the integration among sectors, still use traditional administrative regulatory mechanisms and face the same problem: implementation deficit and shortage of suitable mechanisms of evaluation of policy making process. Consequently, regulation is more effective when used as a framework to encourage changes, rather than as a system of rigid rules. Flexible policy tools and credible long-term objectives can promote the development and adoption of clean technologies, while the environmental regulations should be based on a co-operative process.

As a result of elusiveness of the sustainable development and of its weak implementation a growing interest is emerging in the implementation of *Ecological Modernisation Theory (EMT)*, a variant of sustainable development concept having the advantage that indicates how to reach a sound environment without pointing out what is sustainable or not, proposing a reconciliation between the opposing goals of economic growth and environmental protection, by so named "greener industrialisation”.

## 2.2. Ecological modernisation a paradigm for environmental policy making in tourism destinations

EMT as a paradigm for ecologically restructuring of the society brings innovation by its main core themes: the changing the role of science and technology, the increasing importance of market dynamic and economic agents, the transformation in the role of the national state, changing discursive practices and emerging new ideologies, the modification in the role of ideology of social movements. In the ecological modernisation, traditional curative and repair options are replaced by preventive approaches by incorporating the environmental considerations into the production process. Moreover, more decentralised, bottom-up, flexible and consensual styles of governance that replace the traditional command and control policy making, emerged. Increasingly, the social movements are involved in the public and private decision- making regarding environmental reforms.

EMT has identified two options for strategies to overcome the deficiencies of the traditional bureaucratic state in environmental policy making, namely:

*-a first option concerns a "transformation of environmental policy from curative and reactive to preventive, from exclusive to participatory policy-making, from centralised to decentralised...from domineering, over regulated environmental policy making to a policy that creates favourable conditions and contexts for environmentally sound practices and behaviour on the part of producers and consumers"* (Mol 1995, p46-47). In this respect, Mol suggests that the state will have to focus more on steering via economic mechanisms and change its management strategy by introducing collective self-obligations for economic sector via discursive interest mediation.

*-the second option refers to a "transfer of responsibilities, incentives and tasks from the state to the market that accelerates the ecological transformation process"* (Mol 1995, p.46-47). Thus, the welfare state is relieved of a part of its "burden" and tasks in environmental management by transferring those responsibilities that can be better managed by the private sector itself. The reason behind this statement is the fact that the market is considered to be a more efficient and effective mechanism for tackling environmental problems than the state. The central idea is not a weakening of the power of the state in the environmental management, but a transformation in the relation between the state and society with different accents on the steering role of the state. Ecological modernisation views the environmental challenge as an opportunity rather than a crisis. Industrial

innovation stimulated by an enabling state is a path leading both to economic growth and environmental quality.

Huber (1982, p.12) believes that at the core of ecological modernisation theory is the reciprocal process of the "*ecologising of economy*" and the "*economising of ecology*". Through these two concepts he focused on *sustainable production and consumption* through the introduction of economic aspects, mechanism and principles directed towards environmental protection. For Huber this meant addressing the environmental problems mainly through the transformation of production via development and application of more sophisticated technologies that bring about emissions cut, reductions on the water and energy consumption, also a decrease in waste generation. He believes that the only way of surpassing the ecological crises is going further into the process or modernisation towards "super- industrialisation". These may happen within the tourism sector by placing an economic value on nature and including market instruments as eco-taxes, liability, the increasing demand for ecologically sound products, environmental audits. The aim is to determine the economic actors (tourism industry) and consumers (tourists and local communities) to take into consideration the environmental aspects in their "production" and "consumption" process of the tourism products, services and activities.

The intervention of the state in the affairs of the private sector is often criticised by social theorists. The relation between regulatory state and innovation from the side of tourism industry in resorts is explored considering that the impact of regulation is influenced not only by its imperatives on bringing environmental improvement, but also by negotiations between the state as regulator body and regulated tourism companies. Whenever, impact of regulation is assessed on its capacity of influencing technological and strategic dimensions of innovation of regulated tourism companies. Therefore, the role of regulations in EMT consist in establishing imperatives for improvement whilst in the same time improving the capacity of tourism industry to respond to those imperatives, thus keeping the steering role of the state (local and national governments) in bringing about changes in production and consumption processes.

Considering the "globalisation of tourism", the EMT and the focus on "self- regulation" represent a premise for increased environmental performance of tourism industry and a competitive advantage on the tourism market. As time as environment becomes integrated part of the economic interest, the tourism industry being a big consumer of natural resources (water, energy, generation of tremendous quantities of wastewater and waste), tourism companies will start to demand audits for energy and water savings and waste management and invest in innovation, etc. The Ecological modernisation theory appeals to the private sector (tourism industry) using a word this is interested in, namely "profit", by means of market-based incentives, making the theory more probably to be

accepted by the tourism industry. In this respect, EMAS, eco-labelling, blue flag, etc. shall emerge as important instruments to characterise the environmental performance at tourism industry level, precondition for competition within tourism market.

In these particular circumstances the role of state institutions (Local councils, Environmental Protection Agencies, Romanian Water Company, etc.) is to create conditions for self-regulation by emphasising on dialogue and negotiations with the tourism industry, while the tourism industry is responsible for correcting its externalities and carefully use of resources by investing in green technologies for mitigating the environmental impact. Moreover, the state institutions will also be in charge with monitoring the environmental performance of tourism industry especially by means of economic instruments, by ensuring the “polluter pays principle”.

Angel and Rock (2003, p.45-59) indicated that benefits that can be obtained from close cooperation between the agencies of economic development and the firms (while maintaining autonomy from the firms) include improvements in technological and managerial capability, as well as a wider range of resources and policy tools applicable to enhance economic growth and environmental performances.

Looking at the consumer side, it is clear that in tourism sector environmental problems are more closely linked to “consumption” than to dangerous or inefficient production processes, as time as “consumption” of “tourism products” involves consumption of higher quantities of water, energy and generation of tremendous quantities of waste in full season. The relentless increase in energy and water consumption, the release of carbon dioxide and associated impacts on climate and biodiversity is the best example. Tourists as consumers are not just consuming to survive. It is also clear that the tourists as consumers should not be understood as autonomous actors unaffected by the consumption decisions of the producers and regulators. Even if tourists are willing to change consumption practices in order to reduce their impact on the environment they are likely to face considerable problems because of the context within which they spend their holidays, related to technology development and inefficiency of tourism industry and of local governments in developing and promoting “innovative” models to influence the tourists consumption.

It seems likely that this will involve governments actively promoting an environmental and social message of some kind as distinct from simply providing information. It may involve political speeches, legislation or funding for action programs for the education and tourism information on the practice of a sound tourism. Focussing on more efficient use of energy, water and materials is appropriate. In the sphere of consumption, it is required that consumption acts to be experienced as environmentally friendly by consumers.

### 2.3. Policy networks in EMT

The traditional “command and control” paradigm cannot deal anymore with the environmental policy making and gives space to “governance” as a new concept that respects the autonomy of societal actors involved in policy- making process. Thus the role of the state changes from authoritative allocation to negotiation, hierarchy will give way to equality among negotiating partners and mutual trust among policy partners. Modern democratic governance reflects a shift towards a sharing of tasks and responsibilities, public policy being made via some kind of hybrid arrangements involving public, private and non-governmental institutions. Even though the modern governance is non-hierarchical, the public sector remains ultimately responsible for governance. But before the policies are adopted by elected politicians, policy choices are shaped and refined in bargaining between a diverse range of actors, all having an interest in what policy model is chosen and in advantages they can draw from the implementation of the policy.

As Mol (1995, p.61) acknowledged, “EMT falls short of analytical concepts essential for analysing ecological restructuring process of institutional arrangements”. Whenever, a tool for analysing policy making and ecological restructuring is the *network analysis*. The central idea of EMT is that institutional arrangements cannot happen accidentally, that is why ecological changes should be evident by looking at the transformation of the three spheres: policy, economic and societal institutions.

According to Borzel, (1997, p.9) “policy networks provide for a network for the efficient horizontal coordination of the interests and actions of public and private actors mutually dependent on their resources”. By combining the autonomy of the market actors with the abilities of hierarchies to pursue selected goals and to control their anticipated consequences, the policy networks can overcome the problem of horizontal coordination.

Rhodes and Marsh (1992, p.181-192), acknowledged two types of policy networks: *policy communities* and loosely affiliated *issue networks*. While the policy communities are quite stable, have a limited number of participants, bargaining over resources between members, frequent interactions, the issue networks comprise a large number of participants with quite variable degree of mutual commitment or dependence on others and no one group is in the control of the policies. The type of policy network is generated by three key variables: the relative stability of the network’s membership (concerns the dominance of one actor over the time or the existence of a fluid membership and dependent on the specific policy issue), the relative insularity (a closed or open membership for outsiders with different objectives), the strength of resource dependencies (do

network members depend on each other for resources: money, expertise, legitimacy or are self-sufficient and independent to each other?).

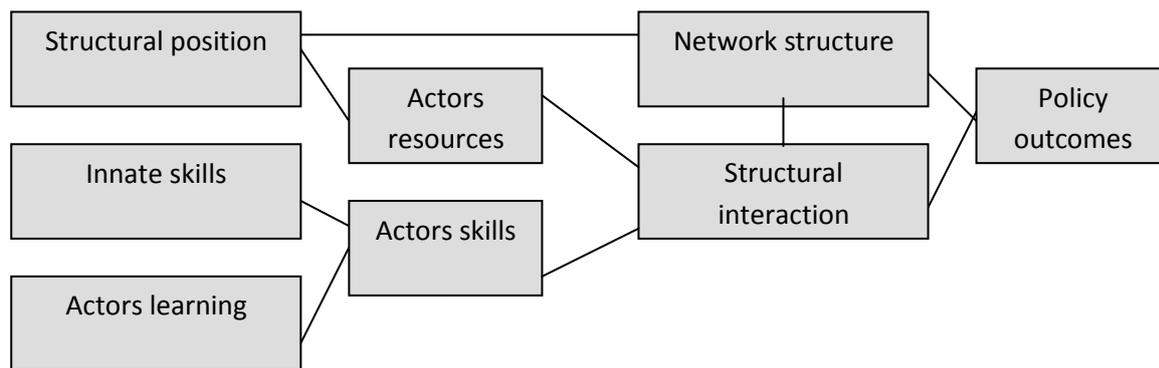
The policy networks always have a core and a periphery. While the core is responsible by policy making and determine the membership of the policy community and outcome of the policy-making process, the periphery only observes and sometimes is consulting in the policy making process. Networks not only serve for decision making, but for information, communication and exercise of influence in the preparation of the decision making. There are policy tools used in this context for the analysis of the policy outcomes: planning, instruments as regulatory instruments (e.g. zoning, land use control, standards, licensing) and economic instruments taxes and subsidies, user charges, economic incentives, etc.) and voluntary instruments/ agreements (administrative covenants, social covenants, policy covenants).

The aim of analysing policy network is to examine if there is any partnership in place in tourism destination to bring about a sound tourism development, thus, to determine the resource allocation between different actors in tourism destinations, and to determine if these actors can mobilise resources in policy making. The analysis allows also the investigation of policy instruments, public and private actors and their relationship with the sustainable tourism policy making. The resource dependency takes a number of forms: legal, organisational, financial, political and informational resources.

The most important in this "game" is the emergence of resource dependency. Resources take a number of forms that are analysed as follows:

- Legal resources: control over the setting, implementation and interpretation of the regulation (national or local by-laws);
- Organisational resources: defined as the capacity of a policy actor to elaborate and implement a policy;
- Financial resources: control of the funds;
- Political resources: linkages to another actors or organisations that may exert pressure on another organisation within the partnership;
- Informational resources: the knowledge one actor dispose of it can mobilise.

**Figure 1: Policy networks and policy outcomes: a dialectic approach**



Source: adapted from Marsh (1998:p194) by Borzel (1997, p10)

Policy networks also help in finding if the policies in place in the selected tourism destinations are equitable for all the actors involved, and how the actors have managed to induce environmental improvement. Networks apply to co-operative efforts among the three categories of actors: public, private and NGOs that are interconnected in different ways, and therefore help explaining policy outcomes, through voluntary bargaining. Negotiations are based on communication and trust. Whenever, there are two main problems/ social dilemmas<sup>1</sup> that can render consensus difficult or even impossible in bargaining system:

1. the *bargaining dilemma*<sup>2</sup> (prisoner's dilemma in the game theory, i.e. in situation in which defection from co-operation is more rewarding for a rational actor than the compliance due to the risk of being cheated (Scharpf, 1992 cited in Borzel 1997, p.8). An optimal result would be achieved through cooperation, but this is susceptible of the betrayal of the other ones.

2. the *structural dilemma*, i.e. the inter-organisational structure of horizontal co-operation itself (ibid.) among organisations based on the negotiations between their representatives, that are not totally autonomous, but under the control of the organisation they represent, rendering difficult the cooperation within the network motivated by the personal interest, insecurity generated by the intra- organisational control and necessity of implementing the inter-organisational policies. The more complex the structure of local action group the more difficult the cooperation, asking for a higher degree of coordination, creativity, flexibility at the internal and external changes, negotiation and reconciliation of interests for overcoming the opportunistic and divergent tendencies.

<sup>1</sup> Social dilemmas describe situations in which the rational behaviour of an individual – defined in economic terms – leads to results under the expected level from a social point of view. These situations appear because the individuals grant more attention to their own interest on short term than to the group interests.

<sup>2</sup> Describes a social dilemma as a game between two persons that show how they can the rational decisions lead to collective imperfect results.

### 3. APPLICATION OF THE ECOLOGICAL MODERNISATION THEORY IN SLANIC MOLDOVA RESORT, ROMANIA- A SHORT ANALYSIS

Slanic Moldova is the only watering spa in the Region of Development North East in Romania. The watering spa lays in the south- west part of Bacau County, at 84 km distance from Bacau, the capital of the county. Called the “Pearl of Moldavia”, Slanic Moldova is an “all season” resort of national interest, whose mineral water springs were discovered in 1801 and nowadays are compared to the mineral waters of Karlovy Vary, Vicky, Aix-les-Bains. The resort offers treatment for digestive disorders, metabolic and nutrition diseases, rheumatic, cardiovascular, respiratory and other health problems. The resort is appreciated due to its 24 mineral water springs, but also to its architecture that kept the historical value keeping the track of XIX century.

The city population does not exceed 5.500 inhabitants (together with 2 satellite districts), according to the local council and the resort accommodates early around 150.000 tourists. The accommodation capacity within the spa is 2.297 places, out of which 1.629 in exploitation and 327 with close circuit belonging to different organisations. The tourist accommodation facilities in Slanic Moldova are classified from 1 to 3 stars (Strategy of social economic development in Slanic Moldova for the period 2007-2013).

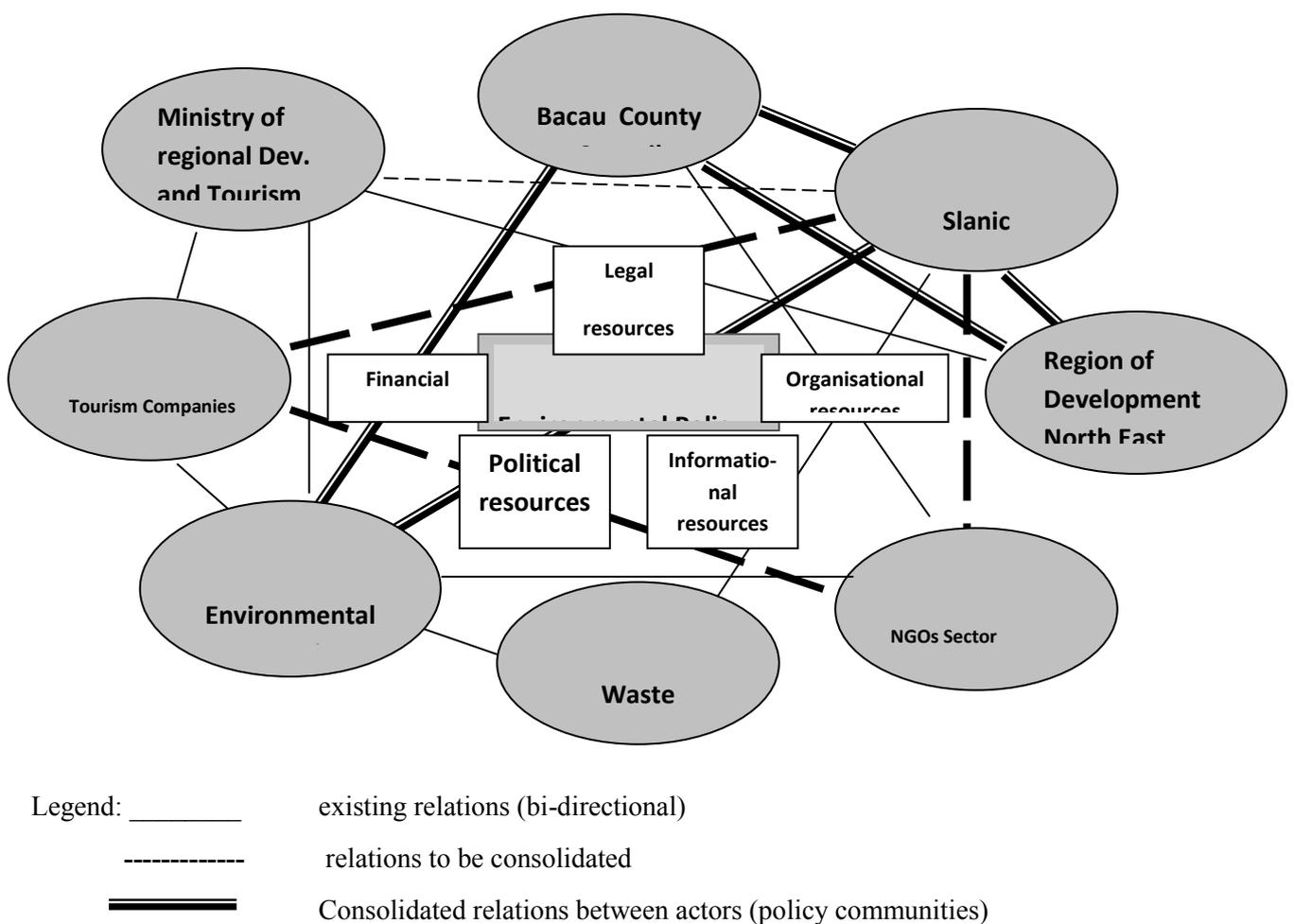
Even though the environment in Slanic Moldova does not encounter very severe environmental problems, first of all due to the decrease in the tourism arrivals because mainly of the lack of tourism “product segmentation”, non- emergence of “niche tourism” according to the values and amenities of each destination and weak marketing strategies, there are few issues worth mentioning. The environment is mainly deteriorating because of insufficient management of the solid waste and incomplete treatment of the wastewater, but also because of using unfriendly environmental technologies at the consumer level (tourism industry and local community) that increase the water and energy consumption. Also, the road infrastructure connecting the resort with Transylvania is not suitable and is considered as being the main obstacle for attracting tourists from this region, and further development of the resort.

The new economic context generated by the economic crises offers opportunities to incorporating environmental concerns within the environmental policy agenda through a more participatory policy-style. For Slanic Moldova local council the participatory environmental policy is still a challenge. Even though the local council links up with other organisations in making up its environmental concerns visible, a better inter-sector communication is highly necessary. A degree of inertia in involving all community representatives has been noticed in what concerns the environmental policy making. The role of policy networks and their interaction as well as the

resource dependency was analysed, also as a way of increased environmental performance. In analysing public policy outcomes in connection to sustainable tourism development in the chosen case study the concept of policy network was used, looking at the interactions among public-private and NGOs, the patterns of cooperation, resource allocation. Policy networks allowed the investigation of the policy instruments, the stakeholders and their relationship with the policy making.

Even though the local council did not involve all the actors in the policy making process, it has a good co-operation with the County Council, some decentralised state institutions (Environmental Protection Agency, Romanian Water Company- Siret Branch, County Department for Public Health, etc.), water and waste companies, that in an extent also contribute to the good organisation of the activities in the resort, with which shares legal, financial, organisational, political and informational resources.

**Figure 2. Relations among actors involved in tourism and environmental management in Slanic Moldova (present situation and perspective)**



Thus, among these institutions, there are many formal and informal contacts that may be seen as “policy community”, with the private sector as its periphery or sometimes viewed as a “governmental network” when the private sector is not always involved or informed about the decisions taken concerning tourism and environment.

In the last years, the Local Council developed adequate expertise and experience in elaborating and implementing environmental strategies, even though it continuously co-operates with the County Council and the Environmental Protection Agency. The County Council is the most influencing actor and the owner of information, being the authority that provides assistance to the local council in environmental management and a powerful political body that can influence the distribution of the budgets or co-financer of projects of county interest, as is Ski-Park. Moreover, the County Council disposes of skilful staff with expertise in elaborating policies and project proposals. Together with the Environmental Agency are invited to the local council’s meetings whose agenda concern environmental issues with impact on tourism development. This partnership may be considered a stable network.

Environmental Agency has an important role in the ecological restructuring of the tourism industry, being involved in all issues that concerns prevention, licensing and controlling of tourist sector. Whenever, the Environmental Agency sees the co-operation between the local council and the tourism sector crucial for the sustainable development of the resort by involving the last one in the decision making process, as the tourism industry has resources for the improvement of the environmental management of the companies by operating efficiently in terms of water and energy consumption and sound waste management. A better involvement and campaign of the Environmental Agency, together with the local council, in promoting and encouraging tourism companies to implement voluntary instruments would induce ecological transformation of the tourism industry.

The Ministry of Regional Development and Tourism is more involved in marketing policies in Slanic Moldova. On the other hand, the NGO sector has been only occasionally involved in local projects, mainly with educational objectives concerning waste management or nature protection.

The local council is the initiator of different strategies and projects whose final aim is the economic growth through tourism development while preserving and improving the environmental conditions. If many infrastructure projects have been implemented or in course of implementation, little has been done to initiate consultations with the tourism industry in all matters that concern the sound development of tourism at the company level. Unfortunately, for the time being in Slanic Moldova as could be seen above, are in place only dispersed, small policy communities or governmental policies focused on solving specific problems. In these policy communities the

involvement of the public sector is predominant, the private sector being at the periphery of these networks. The relations between these two sectors are more formal and inflexible, and do not always result on bargaining over resources, in particular financial resources, most of them being represented by legal resources, considering the legal task of the local council of checking the compliance of the tourism industry with the environmental legislation in what concerns the waste management, water consumption and wastewater collection/treatment. The reason behind this situation is first of all a weak co-operation between the state institutions and private sector based on the former patterns of co-operation before 1989 when was in place the Iron Curtain ideology, but also because of a weak representation of the private sector in the public policy setting and sometimes a kind of tensioned relation based on political grounds among actors. At local level an association of the tourism developers it is not in place, thus the interests of the tourism industry are not always on the political agenda.

By using regulatory instruments, the local council took some measures to determine the tourism industry to integrate the environmental concerns into its activities (water metering, waste segregation at source, “pollution pay” principles, etc.). Anyhow, for tourism industry environmental care seems to become a part of the economic interest. As the water and energy prices are going up, the energy and water conservation become a precondition for increasing tourism industry’s profit. Thus, a part of the tourism industry incorporated the environmental concerns “involuntary”, from economic interest, and not because of environmental awareness. In addition, some tourism companies that modernised their tourism structures were aware that investing in modern technologies/facilities not only increase the turnover by reducing the water and energy consumption, but also gain competitive advantages on the tourism market.

#### **4. CONCLUSIONS AND RECOMMENDATIONS FOR THE USE OF EMT IN TOURISM SECTOR**

Most of the Romanian top-down policies are based on the concept of “sustainable development” that fails to show the implementing organisations what sustainability means in practice. While asserting that a sustainable development of the society must be achieved, the environmental and tourism policies fall short of showing how the environmental crisis may be surpassed. Secondly, a set of indicators to provide the policy-makers at the local level with concrete means of comparison and a set of tools to identify the more sound environmental options is not in place.

Even though, the central, regional and county policies rule the decision making process at local level, local council has the authority to establish its own policies. Whenever, without the participation of the private sector in public policy-making, there are fewer chances that the local policies will be successful and equal for all actors.

The EMT was seen as an opportunity for the local council capacity building and for involving the tourism industry and NGO sector in the policy making process in order to overcome the environmental crisis. Policy networks gave insight onto the existing partnerships between public, private and NGO sector and the resource allocation among actors. The analysis of the environmental policy in Slanic Moldova proves that the local government achieved its goals only in what concerns the local council responsibilities in environmental management, being focused on a more paternalistic policy style. There is still a strong state presence for the environmental protection, instead of creating conditions for the stakeholders' participations. This is a reason of dissatisfaction and criticism towards the local council. Whenever, if the existing consultations with the tourism industry will intensify and be based on trust and resource allocation, there are opportunities for creating a strong policy network. Whenever, also the NGOs cannot be considered a driving force for the ecological restructuring of the tourism in Slanic Moldova as time as they are not well represented or cannot put pressure on the local government or tourism industry to change their environmental management. The NGOs cannot "inject" themselves into politics and challenge dominant ideas and press for changes and new initiatives. Moreover, they need more impetus and financial support to get independence and "visible" as their more institutional counterparts, rather than being non-connected local citizen initiatives, single issue-groups and alternative lifestyle communities.

As environment becomes integrated part of the economic interest, tourism industry starts to demand audits for energy, water saving and waste management. In this respect, environmental management systems (EMS) and eco-labelling emerge as important instruments to characterise the environmental performance of the tourism industry. The implementation of voluntary instruments as EMS can improve the environmental performance by helping the tourism industry to maintain compliance with the environmental laws and regulations. EMS and eco-labelling can result in both business and environmental benefits. An EMS may help a tourism company to improve its environmental performance, enhance compliance, prevent pollution and conserve resources, attract new tourists, enhance employee morale, public image, increase efficiency and reduce costs.

Moreover, these voluntary instruments would represent a precondition for the competition within the tourist market. Few solutions recommended for the greening of the tourism industry, include:

-Eco-labelling certification and using of ecolabeled products and services;

-Obtaining and maintaining ISO 9001 certification;

-Obtaining and maintaining OHSAS 18001 certification;

-Obtaining and maintaining HACCP certification;

-Obtaining and maintaining ISO 14001 certification;

-EMAS certification;

-Having a corporate environmental policy. Implementation of Corporate Environmental Auditing and Reporting;

- Installing water saving appliances (self-closing taps, saving flushing toilets), integration and recycling of the grey water as a water resource of second quality used for the flushing toilets/watering gardens after treatment;

-Energy saving appliances that may include material insulation, ventilation with heat recovery, saving energy bulbs, use of non-conventional sources of energy (wind mills, sun panels) that is renewable and ecologically self;

-Integrated waste management at the company level;

-Negotiating covenants with small aviation companies/private airplanes (e.g. emissions trading where it is known that the number of emissions permits will diminish over time).

#### **4.1. Significance of the EMT and its relevance for the environmental policy making in tourism destinations**

In the recent years, Ecological Modernisation Theory has emerged as one of the most promising way of balancing environment- society relationship in Western European countries. In the ecological modernisation, traditional curative and repair options are replaced by preventive approaches by incorporating environmental considerations in the "production process" that is considerable important for tourism, considering its tremendous seasonal impact on environment.

The innovation stimulated by a competitive market economy and facilitated by an enabling state is a path leading towards economic growth and environmental quality in tourism destinations. Therefore, the burden on the local budgets will decrease as time as the state is relieved of a part of tasks, by transferring those responsibilities, tasks towards the tourism industry. This transfer will accelerate the ecological transformation process in tourism destinations. Establishing the imperative for environmental improvement in the tourism sector is one way the local government can place pressure on tourism industry to incorporate environmental concerns in order to achieve the

environmental targets by voluntary mechanisms. Target setting is important as time as ecological modernisation is more a strategic than an operational issue. As a consequence, the importance of traditional "command and control" forms of regulation declines, focusing more on economic and voluntary instruments.

#### 4.2. Conclusive remarks

Ecological modernisation is not, however, immune from criticism. Whilst there is a reasonable consensus about the core characteristics of ecological modernisation, there are sufficient differences between scholars to distinguish between 'weak' and 'strong' versions along a continuum. In its weaker 'techno corporatist' form, ecological modernisation focuses on the development of technical solutions to environmental problems through the partnership of economic, political and scientific elites in corporatist policy-making structures. The stronger 'reflexive' version of ecological modernisation adopts a much broader approach to the integration of environmental concerns across institutions and wider society, envisaging extensive democratisation and recognising the international dimensions of environmental issues.

Even though the applicability of EMT for the tourism sector has not been tested yet in practise, the restructuring of the economic development that focuses in three major issues: state-market relations, technology development and environmental awareness represent an opportunity and allows the introduction in a first stage of weak 'techno corporatist' ecological modernisation in the policy making of the tourism destinations.

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