Organising for EU Enlargement
A challenge for member states and candidate countries

NEGOTIATING EUROPEAN ISSUES

National Strategies and Priorities
Free Movement of Capital
Hungarian Negotiations

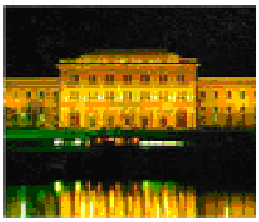
OEUE PHASE I
Occasional Paper 5.2 – 11.03

Tímea Pálvölgyi
Árpád Rózsás

Budapest University of
Economic Sciences and Public Administration

FIFTH FRAMEWORK PROGRAMME

Dublin European Institute
A Jean Monnet Centre of Excellence



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ORGANISING FOR EU ENLARGEMENT:

Challenge for the Member States and the Candidate Countries

The Dublin European Institute, University College Dublin,[1] was awarded, in 2001, a research contract under the EU's Fifth Framework Programme[2] to carry out a comparative study of the impact of the EU on the structures and processes of public policy in six small countries: Ireland, Greece, Finland, Estonia, Hungary and Slovenia. The Project's partnership, under the direction of Professor Brigid Laffan, Dublin European Institute, University College Dublin[3], includes: Professor Dr. Wolfgang Drechsler, University of Tartu; Professor Teija Tiilkainen, University of Helsinki; Professor Calliope Spanou, University of Athens; Professor Attila Ágh, Budapest University of Economic Sciences and Public Administration; and Professor Danica Fink-Hafner, University of Ljubljana.

The aim of the research project was to deepen our understanding of the processes of Europeanisation in a number of the existing member states and some of the candidate states.

The research project encompassed the following three objectives:

- The conduct of research which offers immediate policy relevance to key stakeholders in the enlarging Union;
- The conduct comparative, theoretical and empirical research on the management of EU public policy making in three existing member states – Ireland, Greece and Finland – and three candidate states – Estonia, Hungary and Slovenia;
- The shedding light on the capacity of smaller states to adjust and to adapt to the increasing demands of Europeanisation on their systems of public policy-making and thus to identify the barriers to effective, efficient and accountable management of EU business.

Research Strategy

The research design consisted of two phases and within each phase, two levels of analysis. Phase I analysed the management of EU business at the macro level of the core executive and was complemented by a micro case study of a recent policy negotiation using decision analysis. Phase II of the research broadened the analytical focus to encompass other levels of government – the EU and sub-state – through multi-levelled governance. Here attention was centred upon the emergence of policy networks and the interaction between public actors and the wider civil society in specific, discrete policy sectors.

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[1] National University of Ireland, Dublin (University College Dublin).

[2] European Commission, Community Research Fifth Framework Programme (Socio-Economic Research).

[3] This project forms part of the Governance Research Programme, Institute for the Study of Social Change, University College Dublin, www.ucd.ie/issc/ and www.ucd.ie/govern/intex.htm.

Methodology

The study employed two specific methodologies: historical institutionalism and rational institutionalism in a new and innovative fashion. The use of combined perspectives provided a theoretically innovative and new approach to the study of the Europeanisation process. Both approaches could be used as they were applied to different elements of the empirical research.

Academic and Policy Implications

This study's findings provide insight into the manner in which diverse state traditions, institutions and political and administrative cultures influence national adaptation to EU governance and how the interface between national policy processes and the Brussels arena is managed. It is expected that these findings will assist those making and managing policy, thus facilitating adjustments to the changing European Union while also contributing to the growing academic debate on Europeanisation.

At various stages during the course of this project the research findings and analysis were presented to a range of stakeholders and academics to facilitate feedback and enhance the analytical process. Further details about the Organising for EU Enlargement (OEUE) project are available on the project web site www.oeue.net, along with i) the Project Report, ii) the OEUE Occasional Papers and iii) a selection of papers by the research partners which draw on various aspects their project research.

INTRODUCTION

By establishing the European accession strategy, the 1997 Luxembourg European Council placed the relationship between the candidate countries and the EU on a new foundation. The aim of the accession strategy was to help each candidate country in becoming full member of the Union. Full membership meant that each candidate country had to adopt the acquis communautaire, the Community law of the EU. The adoption process was achieved through a series of negotiations, called the accession negotiations. The EU accession negotiations with Hungary started officially on 31 March 1998.

I. Overview of Hungarian accession management and institutional structures

In Hungary, EU accession management was centralised from the beginning into the Ministry of Foreign Affairs (MFA), unlike in other candidate countries, where it was usually placed in the Prime Minister's Office (Agh and Rozsas, 2003; Vida, 2001). Within the Ministry of Foreign Affairs, accession management was separated completely from other foreign policy fields and was overseen by the European Integration Secretariat (EIS), which was responsible for day to day management and coordination of EU integration. Overall coordination was ensured by two bodies operating under the European Integration Secretariat: the Hungarian Mission to Brussels (which liased with the EU institutions) and the Inter-ministerial Committee for EU Integration (which worked with various domestic interests)[4]. The head of the Mission was Endre Juhasz, who was Hungary's chief negotiator at the same time and had been since the start of the accession negotiations.

The official body established by the EIS in order to coordinate the work between ministries was the Inter-ministerial Committee for EU Integration (ICEI), chaired by the Administrative Secretary of the EIS, where the heads of EU departments of each ministry discussed all issues regarding EU accession management (Agh, 1999; Lippert, Umbach and Wessels, 2001). The ICEI established a working group for each negotiating chapter. These working groups consisted of the representatives of each ministry concerned in the given negotiating chapter, with one ministry acting as chief coordinator (Nunberg, 2000). The involvement of the members of the working groups differed: some ministries were concerned only with one or two issues within the chapter, whereas there were some ministries (the chief coordinator at least), which had to deal with the entire chapter. The proposal made by the working group was a professional one based on policy as well as legal aspects. There were no outside parties or interest groups involved in the preparation of the proposal for the position paper, they could exert only very limited pressure and only at a later stage.

The ICEI working groups had some permanent members, who were involved in all chapters. For every chapter, there was a correspondent appointed by the MFA. A representative of the

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[4] Hungarian Ministry of Foreign Affairs 'Negotiation Delegation' , www.kum.hu.euint/cord5.html (consulted 22.03.2003)

Ministry of Justice appeared in each working group too, in order to provide legal advice when needed and oversee the formulation of the proposal from a legal point of view. The representative of the Ministry of Finance (MOF) was also a member for two reasons: first, every policy decision had financial consequences for Hungary's EU membership, and second, it had financial consequences for the central budget, which had to finance the adoption of the acquis.

Finally, the working groups drew up a professional proposal for the negotiating position of the given chapter and submitted it to the government. Before the proposal became Hungary's official negotiating position the government had to approve it, only after which it was made public. As mentioned above, the EU answered the Hungarian position paper with its own common position paper, and only then the negotiations started. In practice it meant that members of the staff of the Commission and COREPER engaged in discussions with the Hungarian Mission in Brussels, but usually also with the domestic experts (members of the working group concerned). This complex relationship is discussed in detail later in this paper.

For politically sensitive issues, for example the purchase of agricultural land by foreign persons, the political parties and interest groups could intervene and attempt to influence the Hungarian negotiating position only in the phase of the actual EU-Hungarian negotiations. According to the regulations, non-government parties (interest groups and political parties alike) could not change the decision made by the government officially, thus they tried to influence the position through their informal connections or through the media. The very complex domestic power balances between political parties enabled certain very small political parties to effectively use their informal powers to influence certain issues. Generally these parties attached a very high salience to the particular issues but had only very limited powers to influence the decisions themselves.

II. A policy decision modelling approach for the Hungarian case study.

This case study of the Hungarian accession negotiations is guided by the following research enquiries. First of all we would like to identify how the stakeholders at the central level of the Hungarian executive organised themselves at the domestic and European levels to ensure effective own policy position preparation for the EU accession negotiations. Secondly we explore how the stakeholders at the Hungarian core executive negotiated their policy positions at the domestic and European level (Payne, 2002). To answer these questions we attempt to analyse the network of actors who take part in EU accession management and apply three models of collective decision making: the compromise model, the exchange model and the challenge model (Stokman et al., 2000; Bueno de Mesquita, B et al., 1994).

The study examines of the key negotiating chapters for Hungary, the free movement of capital. This chapter was chosen for the following reasons. On the one hand, the issues dealt with in this chapter are central to the EU because they concern one of the basic freedoms, the free movement of capital. On the other hand, the chapter was very important for Hungary because of the problems related to the liberalisation of the market of agricultural land and other real estates. Our preliminary research showed that the negotiations for this chapter were conducted not only on technical questions, but also on political aspects of the problematic issues.

In theory, the national level is where the negotiations took place between the participating institutions of the working group of the Inter-Ministerial Committee on European Integration (ICEI) – the outcome of which was a document reflecting their professional opinion and the development of the position paper of the Hungarian government.[1] It is then at the European level where the negotiations took place between Hungary (in particular, the Hungarian government, the Hungarian Mission in Brussels and the Hungarian negotiation delegation) and the European Union. However in this case study, our preliminary interviews revealed that it was very difficult or even impossible to differentiate between the national and the European levels. Although it seemed that the work of the working group was done entirely at the national level, EU pressure was present from the very beginning through professional consultations and informal talks. To take it a step further, the Hungarian negotiating position, which should have been the outcome of the national negotiations, was subject to heavy influence from European Union actors, both formally and informally. Hence, in the research design framework for this Hungarian case study, there is no differentiation in the negotiation process between the national and European levels.

In this case study, we apply three different models of collective decision making to the EU-Hungarian accession negotiations. By applying the models we seek to determine the characteristics of the negotiations and show to what extent the structural layout of Hungarian EU accession management institutions plays a role. The models used in the study are the Compromise model, the Exchange model and the Challenge model (Stokman et al., 2000; Bueno de Mesquita, B et al., 1994). These models use the same variables (i.e. policy positions, salience and actor capabilities) to predict decision outcomes, but process by which the collective decision outcome is reached, is based on different assumptions. The compromise model provides an estimate of the weighted voting outcome, assuming that there are no negotiations between the parties. The exchange model takes into account the realised exchanges of positions between parties when there is mutual gain for all participants of the exchange. The compromise model does not perform well, when there are long negotiations before reaching an agreement and particularly when there are more issues and the stakeholders have the option of exchanging their positions within one or among many issues. The third model is the challenge model. This model takes on a different approach. Here the negotiations are taken into account but in this model it is assumed that these negotiations are conducted along conflicts arising between the parties and not mutually beneficial exchanges, as is the case for the exchange model. The challenge model does not perform well for unstable issues, where the status of the participants is not stable.

Model-Guided Data Collection

The model-guided data for this research was collected through structured interviews with experts, who have an in-depth knowledge of the Hungarian accession negotiations and in particular the negotiation issues being examined here, either because they have themselves participated in the negotiations or have been very close observers. Experts were identified from the following institutions: the Ministry of Finance, Ministry of Foreign Affairs and Ministry of Agriculture. The first interview took place with the expert from the Ministry of Finance, Head of Department of International Finances and his assistant. This preliminary interview showed that the negotiation chapter on free movement of capital was appropriate for applying the model, and also served for collecting background information on the Chapter four negotiations. Another interview was conducted with the coordinator of the negotiating chapter within the Ministry of Foreign Affairs, EU Economic Policy Department. Other important interviews were conducted with the experts from Ministry of Finance. This key expert for this research was a member of the negotiation delegation and therefore considered an excellent and key informant. An interview with a representative from the Ministry of Agriculture was also requested, but it was not possible to arrange this meeting due to his participation in the negotiations on agriculture, which were ongoing at the time of our data collection.

The identification of a list of possible issues for analysis was done by the researchers themselves. The aim of the screening process was to identify those legal provisions, which do not comply with the acquis. Therefore the findings of screening served as a good basis for this preliminary issue specification. These provisions included foreign exchange liberalization, direct investments, acquisition and lease of agricultural land and land in nature conservation areas, acquisition of real estate not classified as agricultural land or nature conservation area, outward investments of institutional investors, golden shares or other special rights of the state, and money laundering. To back up the information received from screening, other sources[5] were consulted, such as Hungarian newspapers and various Hungarian and EU websites.

The definitive issue specification took place during the interview with the key informant from the Ministry of Finance. Those issues were selected as definitive issues from the findings of the preliminary specification which were a) still controversial and where b) a transitional period had been requested. The latter condition was important as the researchers faced the problem that Hungary as well as the other candidate countries tended to accept the acquis even at the expense of their national interests. Thus, a transitional period requested by the applicant country indicated an issue, which was of utmost importance to the applicant country, and that the given government conducted *real* negotiations with the European Union. There were some controversial issues for which transitional periods had been requested but were later withdrawn because the date of accession was delayed and commitments already fulfilled in the meantime.

A typical example was foreign exchange liberalization where full liberalization was carried out by 2002. Taking into account the above conditions, acquisition and lease of agricultural land and nature conservation area, acquisition of real estate not classified as agricultural land or nature conservation area and outward investments of institutional investors were selected as issues for the research.

IV A Hungarian case study: Free movement of capital

Stakeholders in the Hungarian accession negotiations for Chapter Four

In Hungary, each negotiating chapter was referred to a particular working group of the Inter-ministerial Committee on European Integration. The working group was responsible for Chapter 4, free movement of capital, and was headed by the Ministry of Finance and also involved representatives of the following institutions: Prime Minister's Office, Ministry of Foreign Affairs, Ministry of Agriculture, Ministry of Justice, Ministry of Transport, Ministry of Environment, National Bank of Hungary, Hungarian State Treasury, Insurance Supervision Authority. The clear separation of the national and European level of negotiations was not possible because of the gap between the formal and actual process of negotiations. Hence, in the framework of this study, the EU as a stakeholder will be on the same level as the Hungarian stakeholders. On the other hand, the European Union is considered as only one single actor, even though all member states are represented separately during the formal negotiations (IGC), as the member states have to agree on one common position before starting the negotiations.

Turning to the Hungarian stakeholders, there were two types of actors involved in the decision making process in each negotiating chapter, formal and the informal stakeholders. The formal participants were the government as a body and all members of the ICEI working groups, while there were informal actors as well (i.e. small political parties or interest groups). When identifying the stakeholders for application for the models, we need to define the government and some other ministries separately to be able to handle their different roles in decision making. In case one or more ministries are mentioned separately, then the stakeholder 'Government' refers to all ministries and the PMO excluding the separately mentioned ministries. Some of the other members of the working group had only limited interest in the negotiations. They were primarily institutions within Hungary's public administration system that provided their professional expertise as background for the proposal and these institutions included the Ministry of Transport, the Ministry of Environment, the Hungarian State Treasury and the Insurance Supervision Authority.

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[5] Newspapers consulted included Nepszabadsag, Vilaggazdasag, HVG, Figyelo; the initial negotiating position of the government of Hungary available at the MFA website, the Hungarian Mission in Brussels website, the Commission Enlargement website and Euractiv website.

The Prime Minister's Office (PMO) played a special role throughout the discussions, as it kept the Prime Minister and the entire government informed in order to facilitate the government decision later, when the proposal was submitted. However, the major stakeholders within the working group were the Ministry of Foreign Affairs, the Ministry of Agriculture (MOA) and the Ministry of Finance (MOF). Due to the Ministry of Foreign Affairs' central role and special place within the institutional layout (it was in direct contact with the EU), it sometimes had a clearer overview of the negotiations (having more information on possible trade-offs with the EU). Thus, it sometimes happened that it had a different opinion on certain issues than the Prime Minister (or rather the PMO) and the other ministries, and was able to convince them about the gains of shifting of the government's opinion. Hence, it was the second important stakeholder after the government, interested in the entire negotiating chapter. The two other major stakeholders were the MOF and the MOA. The Ministry of Finance was head of the working group and played a double role in the preparation of the proposal. On the one hand its task was to provide financial resources for the adoption of the acquis and on the other hand, the MOF had to oversee the entire chapter as a coordinator but it had to give its professional opinion only on a limited number of policy issues. However, the issue of institutional investments, which was part of the negotiation package analysed in this case study, was such an issue.

The Ministry of Agriculture was another key stakeholder in the negotiations examined here. First it should be pointed out that the minister of agriculture was also the president of the smaller government coalition party, the Independent Party of Smallholders (FKGP), which represented the interests of farmers. One of the central issues in the negotiations centred on the purchase of agricultural land by foreign persons, which of course was of crucial importance not only for the ministry but also for the party itself. As a political party and member of the government coalition, FKGP was able to use considerable informal resources as well as its formal power within the working group. Thus, this stakeholder in our analysis will not be referred to as the Ministry of Agriculture, but rather the FKGP itself, which brought in the interests of a wider social group (the farmers and rural communities).

The last stakeholder is a small, radical right wing party, the Party of Hungarian Justice and Life (MIEP). It was a small parliamentary party between 1998 and 2002 and it had no formal powers with regard to the Chapter four Working Group or with regard to participating in the government's approval of the proposal. However, the party supported the government several times in parliamentary voting and so it had some informal power and it could also efficiently use the media to influence an issue.

III. Negotiation Issues and Stakeholders' policy positions

To ensure free movement of capital, full liberalization of capital movements must be achieved by eliminating all barriers. In Hungary, as part of the economic transformation, the liberalization process started before the political transition[6]. Free movement of capital, dealt under chapter four of the EU Accession negotiations, was one of the cornerstones of the single market. Hungary had to ensure through the preparation of its legal and institutional regime that the freedom of all categories of capital movements is guaranteed. As the completion of the single market was of crucial importance, full alignment with the acquis in this field as early as possible was highly desirable. The implementation of the EU legislation was regarded as an indicator of the country's ability to cope with market forces. The European Union required the proper functioning of the capital market upon accession, the preconditions of which were the timely and orderly removal of remaining restrictions on capital transactions as well as an appropriate strengthening of the country's financial market and its supervision mechanism. The implementation of these measures would ensure the actors of the financial sector to adapt in good time and their proper functioning from the date of accession. The risk of sudden disruptions on the financial markets, regularly noted by the Hungarian counterpart, would be reduced or even removed, at least according to the European Union.

The screening negotiations on free movement of capital first took place in a multilateral format on 4 December 1998 and later at the bilateral level on 14 December 1998. The negotiations were preceeded by a screening list containing corresponding European legislation, such as directives and decisions (list A) and recommendations and declarations (list B). The multilateral negotiations aimed at introducing the Community acquis with special regard to monetary integration, capital movements and the relationship with international institutions, which was then followed by a consultation with the candidate countries. Hungary along with the other candidate countries had the opportunity to present its national regime at the bilateral negotiations and express its opinion on the liberalization to be carried out as well as on potential transitional arrangements. The Hungarian delegation presented the Hungarian regulation on

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[6] The section on free movement of capital is based on Hungary's initial negotiating position available at the MFA website (http://www.mfa.gw.hu/kulugyminiszterium/en). As part of an overall liberalization process of the economy, the gradual removal of restrictions on current account and capital transactions began in 1988. Act XXIV of 1988 ensured the freedom of foreign direct investments in Hungary in almost all sectors of the economy. Full or majority foreign ownership of a company still required prior authorization. This requirement was abolished in 1991. The Europe Agreement signed on 16 December 1991 contained important commitments for further liberalization. On 1 January 1996 the convertibility of the Forint for current account transactions was introduced in accordance with Article VIII of the Articles of Agreement of the International Monetary Fund. Act XCV of 1995 on Foreign Exchange, which came into force on 1 January 1996, liberalized most of the long-term capital movements and partly also the outward direct investments. In May 1996 Hungary joined the OECD which included the adoption, with some reservations, of the commitments of the Code of Liberalization of Current Invisible Operations and the Code of Liberalization of Capital Movements. As from 1 July 1996 foreign residents were entitled to purchase domestic bonds with a maturity of one year or more. Hungarian residents were allowed to acquire government bonds of OECD countries with a maturity of one year or more. As from 1 January 1997 domestic residents became entitled to buy shares and bonds with maturity of one year or more of any OECD-based company with best investment ratings, and non-residents were entitled to issues such shares and bonds in, and introduce them to the Hungarian market. On 1 January 1998 the establishment of branches and representations of foreign companies was made possible by Act CXXXII of 1997 on Hungarian Branch Offices and Commercial Representative Offices of Foreign-Registered Companies. Residents became entitled to acquire real estate in foreign countries and to buy shares and bonds with a maturity of one year and more of any company based in an OECD country, regardless of the companies investment rating, and non-residents were entitled to issue such shares and bonds and introduce them to the Hungarian market. As from 1 February 1999 Act LXXII of 1998 the establishment for economic purposes of foreign nationals as independent entrepreneurs

capital movements, in particular foreign direct investments, acquisition of real estate by foreigners, foreign investments of institutional investors and foreign exchange regulation. The initial negotiating position of the Hungarian government stated that it intended to introduce further liberalization measures in the field of medium and long-term capital movements in the near future. All remaining restrictions were to be removed by the time of accession including primarily short-term transactions and transactions denominated in Hungarian Forint. The final step of liberalization would extend to all money market operations including derivatives.

In this research, three issues were identified by our experts as the key negotiations issues for Chapter four of the Hungarian accession negotiations and these included: the acquisition and lease of agricultural land and nature conservation area, the acquisition of real estate not classified as agricultural land or nature conservation area and the outward investments of institutional investors.

Issue 1: Acquisition and lease of agricultural land and nature conservation area

The stakeholders involved in issue one are the European Union, the Hungarian government, the Ministry of Foreign Affairs and the Independent Smallholders' Party (FKGP). During the Orban government, the Ministry of Agriculture (MOA) was led by the FKGP. This first issue (i.e acquisition and lease of agricultural land and nature conservation area) was very controversial and highly politicised in Hungary. In order to comply with the acquis and in particular, the EU directive (Section II/A of Directive 88/361/EEC) dealing with the domestic investments of foreigners, Hungarian legislation had to ensure that foreigners could purchase all kinds of real estate without any restrictions. According to the Hungarian legal regime at the time of the negotiations, the acquisition of real estate was free of any restrictions in those cases where it was an investment into a domestic venture, that is if it was linked to entrepreneurial activity. Restrictions however existed for the acquisition and lease of agricultural land and nature conservation areas by foreign residents. These restrictions were laid down in Hungarian domestic legislation (Act LV of 1994 on Agricultural Land), which did not comply with the EU acquis communautaire[7]. It was argued on the Hungarian side that the domestic agricultural sector, as a whole as well as the living conditions of rural communities, would be threatened if a complete liberalisation of the capital market were carried out. Liberalisation would also imply

allowed the nationals of the member states of the European Union to settle down in Hungary as individual entrepreneurs or self employed person. National treatment was extended to them.

[7] The relevant parts of the Hungarian legislation were as follows: Legal persons and other entities (not natural persons), whether domestic or foreign are not entitled to acquire agricultural land and nature conservation area. (There are limited exceptions regarding Hungarian entities: the State, local governments, public foundations, and non-profit associations for the management of forests and grazing land. Mortgage institutions also may acquire land as part of their activity but they have to resell it within a fixed time. The churches may also become owners of agricultural land by inheritance or donation, but not by purchase.) Foreign natural persons are not entitled to acquire agricultural land and nature conservation area. Branches and representations of foreign registered companies and non-resident individual entrepreneurs or self-employed persons established in Hungary are also considered as foreign persons and therefore fall under the restrictions of the act. Foreign natural and legal persons are not entitled to lease

the purchase of agricultural land and nature conservation areas by foreign residents. The argument for maintaining the restrictions of the present national regime was backed up with the large difference in the price level of agricultural land between Hungary and the existing member states of the European Union. The question here was how to resolve the conflict between the general rule of accession negotiations and the great pressure from the Hungarian side. As a general rule in accession negotiations, EU legislation has to be fully harmonised with and implemented into the Hungarian legal regime. Transitional measures are exceptional, limited in time and scope, and accompanied by a plan with clearly defined stages for the application of the acquis.

Figure 1. Issue 1 policy dimension

For how long should the present regime of restrictions on the acquisition and lease of agricultural land and land in nature conservation areas be maintained?

0	60	70	100
No transition	5 years	10 years	20 years

Policy positions of stakeholders for Issue 1:

0: Application of acquis at the time of accession: EU

60: Transitional arrangement of 5 years: Hungarian Ministry of Foreign Affairs

70: Transitional arrangement of 10 years: Hungarian Government

100: Transitional arrangement of 20 years: FKGP

Actual Outcome for Issue 1:

65: 5 years transition period plus nature conservation areas were excluded from transition period[8]

Full compliance with the acquis from the date of accession did not seem to be a feasible alternative, as the Hungarian actors were heavily pushing for a transitional period. However the various Hungarian stakeholders did not share a common position as to what that that transition period might be. Although there was agreement on the necessity of a transitional measure, their views differentiated as regards the length of the transitional period. Four different policy positions were identified and these are presented in Figure 1. The left extreme, position zero, reflects the initial EU standpoint of applying the acquis upon accession, where no transitional period is possible or necessary. The other three positions reflect the necessity of a transitional period, however with differing time periods. The Ministry of Foreign Affairs position of 60 stands

more than 300 ha agricultural land or agricultural land with a value of more than 6000 golden crowns (a historic Hungarian measure for the value of agricultural land).

[8] After the chapter was provisionally closed, the Hungarian government handed in a supplementary position on extending the transitional period with three years based on another review to be held in the seventh year of transition, thereby stressing a formula of 7+3 years. As the supplementary position was not dealt with before closing the chapter, the parties involved returned to it at a later stage of the negotiations.

for a five year transitional arrangement, the Hungarian Government position of 70 stands for for ten years and the FKGP position of 100, the right extreme position on the scale, stands for twenty years. Positions 60 and 70 are closer together reflecting a smaller political distance, whereas position 100 is a rather extreme and unrealistic view. The FKGP (Ministry of Agriculture) wanted agricultural land to be owned by Hungarians only. Its position was therefore a very long transitional period of 20 years (right extreme). The Ministry of Foreign Affairs, being the coordinator of the negotiations, exerted substantial pressure on the other Hungarian actors during the negotiation process to request as less as possible transitional arrangements and to accept as much as possible of the acquis. The MFA attempted to find the middle course between Hungarian interests and EU pressure and therefore is closest to the EU (transitional period of 5 years). The government's position was very much influenced by societal political pressure and therefore pushed for a transitional period of 10 years. It is however important that the policy positions on the scale represent political distances. There is no great difference between the position of the MFA and the government. The MFA being the closest to the EU position still implies a great distance.

In its negotiating position, the Hungarian government argued that the restrictions on legal persons (under domestic Hungarian legislation) were not discriminatory since they were applicable to both resident and non-resident, to domestic and foreign legal persons alike. Furthermore, they argued that these restrictions were part of the Hungarian system of property ownership, which, under Article 222 of the EC Treaty, could not be prejudiced by other provisions of the Treaty. The Hungarian government justified its position regarding its request for a transition period for the acquisition and lease of agricultural land by referring to various economic and social factors. It argued that the prices of agricultural land were 5 to 40 times higher in the existing member states than in Hungary. It argued that liberalisation upon accession would result in a sudden and large price rise and thus disrupting the social basis of rural communities. It would prevent Hungarian farmers from having access to land at affordable prices and interfere with the policy of the Hungarian government aiming at the creation of a more viable ownership structure. They argued that the level of unemployment was likely to increase, as many people could lose their livelihood in the absence of newly created jobs in other sectors. The government also referred to the social problems that the high prices would incur. The Hungarian government requested a ten-year transitional period in its initial negotiating position for the maintenance of existing restrictions on the acquisition and lease of agricultural land and nature conservation areas.

In its first and overall response, the European Union refused the request concerned and asked for additional information. The request as regards the acquisition by foreign natural persons which was based on economic and social grounds was not accepted, as – according to Article 58 of the EC Treaty – economic and social considerations do not provide sufficient grounds for maintaining the restrictions. Detailed argumentation and data was required as regards the ownership structure of agricultural land, how the government wants to enhance the development of viable family farms as well as why it wants agricultural land to be owned by Hungarians. As regards the restrictions on foreign ownership of nature conservation areas the state wanted the land in question to be owned by the state, not by private owners or foreigners. It had developed a purchase program for acquiring the remaining areas but lacked the necessary funds for full implementation before accession. Hence, a transitional measure was requested. The European Union refused this part of the request as well and asked for additional data. The restrictions concerning legal persons did not seem discriminatory as the regulation applies to both domestic and foreign legal persons. However the EU noted that the prohibition still restricted capital movements, particularly inward direct investment. It asked for a detailed description of the reasoning on why the government did not want agricultural land to be owned by legal persons.

In the end, the Hungarian stakeholders held firm and the negotiation chapter was closed with the European Union's acceptance of a seven-year transitional period. However it stressed that full implementation of the acquis in this field had to be carried out as early as possible and that the chapter might be reopened in relation with the negotiations on agriculture (chapter 7). It was furthermore agreed that a general review and a proposal would to be prepared by the Commission in the third year of the transitional period, on the basis of which the Council might decide to reduce the length of the transitional period. The restriction on legal persons was also considered as a request for a transitional period, hence Hungary may prohibit the purchase of agricultural land by legal persons during the above mentioned transition period. Those EU citizens who have been legally resident for a minimum of three years and involved in farming may purchase land already after three years. The EU refused the request on the lease of land and excluded the nature conservation areas as well.

Issue 2: Acquisition of real estate not classified as agricultural land or nature conservation area

The negotiations for issue two referred to all kinds of real estate, except agricultural land and land in nature conservation areas. As laid down in Hungarian law (in Government Decree 7/1996 (I.18.) on the Acquisition of Real Estate by Foreigners), the acquisition of real estate is subject to permission being issued by the capital or county public administration office. Under certain conditions the issuance of the permission is obligatory, for example, in the case of a foreign person who has already been residing in Hungary for more than five years and residing there for the purpose of performing work. However, in most cases the issuance of the permission is up to the consideration of the competent authority. Before taking the decision, the authority must obtain the statement of the mayor of the city or village concerned on whether the purchase of the real estate might damage municipal interest. In practice only about 3.5% of these applications were refused (see Appendix 1).

The stakeholders involved in the negotiations for this issue are the EU, the Hungarian government, the Ministry of Foreign Affairs and the Party of Hungarian Justice and Life (MIEP). The Hungarian government (including the Ministry of Foreign Affairs) requested a transitional period of five years on maintaining the authorisation procedure. The government justified its request by economic and mainly social factors. They argued that real estate prices were still lower in Hungary than in the existing member states of the European Union but were projected to increase as accession to the European Union drew nearer. After accession, the interest of foreigners – nationals of EU-countries and non-EU countries – to purchase real estate in Hungary was certainly expected to increase. Full liberalisation would result in a sudden price rise, which might cause difficulties for Hungarian citizens to purchase real estate at affordable prices and to achieve better housing conditions. The sudden emergence of the large number of foreign owners in local communities might disrupt the social environment of some villages or cities. The primary objective of the authorisation procedure therefore was to prevent concentration in certain areas, that were susceptible to the creating such socially undesirable situations. The procedure also served as a means of contributing to the prevention of money laundering and combating crime.

Figure 2: Issue 2 policy dimension

For how long should the present regime of restrictions on the acquisition of real estate not classified as agricultural land or nature conservation area be maintained?

0	80	100
no transition	5 years	national regime

***Policy positions for Issue 2*:**

0: Application of acquis at the time of accession: EU

80: Transitional arrangement of 5 years: Hungarian Government

80: Transitional arrangement of 5 years: Ministry for Foreign Affairs

100: Maintaining present national regime: MIEP (the Party of Hungarian Justice and Life)

Actual Outcome for Issue 2:

60: Transition period of 5 years for "secondary residences" only

In its negotiating position, the Hungarian government also referred to the similarities between the Hungarian request and that of Austria, Finland and Sweden during their accession negotiations. These countries could maintain their national regime on "secondary residences" for a five-year transition period. The government considered secondary residences to be identical, depending upon its interpretation.

It was a special characteristic of the present issue that no clear layer of the society could be identified with a common interest on restricting foreigners from acquiring real estate. This refers to the relatively low level of controversy and politicisation of the issue and the fact that in previous years, less than 5% of such applications were refused (see Appendix 1). Nevertheless, the right-wing political party of Hungarian Justice and Life (MIEP) wanted to maintain the national regime and was opposed to any type of transition period. In Figure 2, their position is represented as one of the extreme positions on the issue continuum. It has to be emphasised that MIEP could exert influence only through making use of its informal resources. It was not part of the government but it supported the Orban government from the opposition and thus could build up certain ties with the government. MIEP also was relevant to the decision situation, as a member of MIEP headed up the capital public administration office and MIEP used the media in order to influence the public.

The preference of the EU was to have Hungary conform to the acquis in this area. However in response to the Hungarian Government's position, the EU asked for additional information, in particular as regards of what type of buyers were subject to the authorization procedure, as well as why the Hungarian government expected an increase in the number of potential buyers. It also had to be specified that self-employed EU-nationals and EU companies would not be subjected to the procedure. The EU also noted that further justification was needed for the maintenance of the restrictions, as on the basis of the low number of refusals the EU did not see any reason to maintain the authorization procedure.

The position of the government was strengthened through the lack of en effective legal basis for rejection as well as the fact that other applicants' similar requests were accepted indicating the EU's willingness to accept the Hungarian request. Moreover, as the negotiations and time passed, the original economic arguments of the Hungarian government were strengthened by the substantial increase in foreigners' requests for the purchase of Hungarian land (e.g. for example the land around lake Belaton). In the final stages in the negotiations, Hungary revised its negotiating position and limited its request for a transition period to secondary homes only. The revised request was accepted and welcomed by the EU as it was limited in time and scope and would not lead to the distortion of the single market.

Issue 3: Outward investments of institutional investors

Institutional investors are financial enterprises which collect financial resources from financial markets and invest the assets accrued into various financial instruments and there are a large variety of such institutional investors in Hungary. Under the Hungarian legislation outward investments (investments in foreign countries) of certain special institutional investors were prohibited or permitted up to certain limits only[9]. However these various prohibitions and

[9] These special institutional investors are voluntary mutual health funds and voluntary mutual assistance funds (laid down in Act XCVI of 1993 and implementing Decrees); voluntary mutual pension funds (laid down in Act XCVI of 1993 and implementing Decrees); (mandatory) private pension funds (laid down in Act LXXXII of 1997 and implementing Decrees); and insurance enterprises (laid down in Act XCVI of 1995 and

restrictions on outward investments did not comply with Article 56 of the EC Treaty, according to which all kinds of restrictions on capital movements are prohibited.

The stakeholders involved in the negotiations around this issues during the Hungarian accession negotiations on Chapter four included the European Union, the Hungarian government, the Ministry of Foreign Affairs and the Ministry of Finance.

Figure 3: Issue 3 policy dimension

For how long should restrictions on outward investments of institutional investors be maintained?

0	100
no transition	five years transition

Policy Positions for Issue 3:

0: No transition period/Application of acquis at the time of accession: EU

0: No transition period/Application of acquis at the time of accession: Hungarian Ministry for Foreign Affairs

100: Transitional arrangement of 5 years: Hungarian Government

100: Transitional arrangement of 5 years: Hungarian Ministry for Finance

Actual Outcome for Issue 3:

0: No transition period/Application of acquis at the time of accession

There were four stakeholders involved in the negotiations around this issue and these included the EU, the Hungarian Government, the Ministry for Foreign Affairs and the Ministry for Finance. All of the actors involved in the decision situation could be grouped into one of two policy positions as there were no intermediate positions identified, thus implying this was a dichotomous issue.

At the start of the negotiations on the issue concerned, the Hungarian government requested a five-year transitional period for maintaining the restrictions on outward investments of certain institutional investors. The government justified the maintenance of these restrictions by referring to the infant industry argument, as the reforms, which were introduced in the social security system, including the pension system, had not been completed. Long-term (10-15 years) life insurance activity was also considered as an infant industry. Therefore public confidence in the new institutions and instruments was crucial to the government which requires

implementing Decrees). A more detailed discussion is available on the MFA website http://www.mfa.gw.hu/kulugyminiszterium/en).

the limitation of investments in foreign countries. The European Union did not share the above interpretation. It declared the restrictions as discriminatory and did not consider them to be justified on grounds of public policy. It furthermore invited Hungary to reconsider its position and suggested the introduction of prudential measures in conformity with the acquis in order to maintain public confidence in those institutions. The prudential measure proposed by the EU was the "currency matching" principle, which is in compliance with the acquis and at the same time protects the development of the Hungarian capital market. Currency matching means that the financial assets which will cover future payments must be invested in the currency in which the future payment liabilities of the aforementioned institutions will arise, thus eliminating all exchange rate and other risks. For instance, a pension fund which will make pension payments in Hungarian Forints should invest the contributions of its members in Forint denominated assets.

The EU as well as the Hungarian government used political arguments to defend their positions. Besides the above reasons another important reason behind requesting a derogation was to secure that institutional investors, the major buyers of government bonds, invest their funds domestically, thus providing a stable background for the financing of the budget. The debate between the different actors and especially the Hungarian Ministry of Finance on one side and the Hungarian Ministry of Foreign Affairs on the other was on whether or to what extent institutional investors would invest their resources abroad if the restrictions were not maintained. The Ministry of Finance insisted on requesting a transitional period as its most important task and responsibility was to secure the financing of the national budget. This argument formed the core of its position. The prudential measure of currency matching proposed by the EU and supported by the Ministry of Foreign Affairs was not considered as appropriate by the Ministry of Finance. The MOF furthermore emphasized that such a large scale liberalization could lead to unforeseeable consequences. It also pointed out that there were some member states of the EU which imposed restrictions on the investments of pension funds. The latter reasoning was disproved by the MFA as the EU had already commenced procedures against these countries.

The Ministry of Foreign Affairs did not share the view of the government and especially the Ministry of Finance. The MFA did not expect any difficulties upon liberalisation, particularly with regard to the financing of the national budget. It expected interest rates in Hungary to remain higher than in the existing member states which implied that it would be more advantageous for the Hungarian institutional investors to invest their funds at home and not abroad. The MFA suggested the withdrawal of the request for the transitional period, which was then accepted by the Hungarian government. The EU welcomed the withdrawal of Hungary's request for a transitional period on outward investments as well as its commitment to bring its legislation in this field in conformity with the acquis by the time of accession.

IV. Stakeholders' salience across issues

This section discusses the level of salience or importance the stakeholder attached to each of the three issues. We expected that the stakeholders might attach quite different levels of salience to the same issues. We defined the level of salience that the stakeholder attached to the issue as a measure of the extent to which the stakeholder is willing to put into effect its potential power if the issue is brought up during interaction with other stakeholders[10]. The absolute numbers on salience indicate an average level of priority of each issue to each of the stakeholders listed in Table 1, where the higher the number the greater the level of salience attached to the issue, with maximum level defined as 100 and the minimum at 0.

Table 1: Priority list per stakeholder

Stakeholder	Issue	Salience
European Union	Land purchase	50
	Other real estate	40
	Institutional investors	30
Hungarian government	Land purchase	90
	Other real estate	70
	Institutional investors	50
Ministry of Foreign Affairs	Land purchase	80
	Other real estate	70
	Institutional investors	70
Ministry of Finance	Institutional investors	80
FKGP	Land purchase	100
MIEP	Other real estate	80

The most important issue for the European Union was the land purchase issue as it relates to the four freedoms, as well as to the negotiations for agricultural chapter. As regards the second issue, the acquisition of other real estate issue, this was less important as maintaining the national regime would only mean a restriction and no prohibition – as in the case of land purchase. The restrictions would only limit the free movement of persons and not all the four freedoms. It is important to note that the negotiations on the chapter four, (which we are examining in this case study) were linked to the chapter on free movement of persons, where the European Union wanted to enforce its own derogation on limiting the free movement of nationals from the new member states. This third issue is the least salient for the EU, it is

[10] A more extensive discussion of the criteria used for measuring the salience variable is presented in Payne (2002).

related to the free movement of capital and services. Considering the overall negotiation process including all accession chapters, there were certainly issues of higher importance for the European Union such as the negotiations on the free movement of persons issue. However the results presented in Table 1 suggest that these issues being examined here were also quite important for the EU, primarily because of their link to more fundamental principles such as the four freedoms or the negotiations of agriculture.

The Hungarian government attached the highest level of importance to the first issue and in particular to securing in the negotiation the enforcement of the transition period in the case of land purchase. The Hungarian government's salience is ranked at 90, which means that the government was willing to mobilise almost all of its resources to influence the decision outcome. For the Hungarian government, the transition period on land purchase was not only the highest priority within the chapter concerned but also the key question in the overall accession negotiations. This was certainly due to the high level of politicisation and societal pressure exerted by a major part of the society likely to be affected by the decision outcome. The second issue, the acquisition of other real estate, is similar to issue one as both issues are concerned with restricting foreigners from purchasing Hungarian real estate. It was also politicised but at a lower level which is reflected in the lower level of priority attached (salience of 70). The third issue on outward investments was the least controversial and least politicised issue out of the three and this was reflected in the level of salience (salience of 50) to the issue by the Hungarian government.

The level of salience the *Ministry of Foreign Affairs* attached to each issue tended to reflect the level of controversy and politicisation generated by an issue, as well as the Ministry's important role of trying to find a middle course between the position of the EU and the Hungarian stakeholders, thereby striving for a compromise. As the negotiations passed it became clear that the smaller the number of requests for transition periods the better as far as the European Union was concerned. This meant for the MFA – being an actor having a broader view over the overall negotiations compared to the line ministries – that the targets such as the number of transition periods had to be limited and clearly set. In this sense land purchase was priority one for MFA – several key actors attached relatively high levels of salience to issue one and to a lesser extent issue. The question of outward investments was also relatively important for MFA. For this issue it did not want to request a transition period but keep the possibility open of derogation for the other issues.

Three of the stakeholders listed are identified with only of the three issues. The Ministry of Finance was interested in third issues and attributed high level of salience to the request of the transition period on outward investments because it wanted to secure the financing of the budget, thereby defending its core task as a Finance Ministry. It was the only conflict where the MOF could be included as a stakeholder relevant to the decision situation despite its leading position on the working group under the Inter-ministerial Committee on EU Integration (ICEI).

The two remaining stakeholders, the FKGP and the MIEP were both political parties, the first being the smaller coalition party of the Orban government. As the Ministry of Agriculture belonged to FKGP during the Orban government, it put all its efforts to defend its view in agricultural related issues.

V. Stakeholders' capabilities

A stakeholder's capability is the ability to influence decision outcomes. The capability of an actor is not solely determined by formal powers but also includes informal resources, such as financial resources, access to information and other important actors as well as leadership of a large number of individuals. Capability is measured on the basis of expert judgements and is indicated on a scale from 0 to 100.

Table 2: Stakeholders' Capabilities

Stakeholders	Capabilities
European Union	100
Hungarian government	30
Ministry of Foreign Affairs	30
Ministry of Finance	10
FKGP	10
MIEP	5

In our research the capability of actors is largely based on informal resources as no formal voting is applied during the negotiations. The European Union and the Hungarian government are the two actors who have formal authority to take decisions, the other stakeholders solely prepare proposals (eg MFA and MOF) and make use of their informal resources. The European Union's capability is measured as the highest and received a score of 100. The power of the Hungarian actors on each issue is summed together to be able to compare it with that of the EU. In this way the capability of Hungarian stakeholders varies between 65 and 70 (issue 1: 70, issue 2: 65, issue 3: 70). Both the Hungarian government and the Ministry of Foreign Affairs are measured at the same level of capability, the first being the formal counterpart of the European Union and the latter being the key coordinator of EU affairs and accession negotiations. The Ministry of Finance has a relatively low level of capability because it was not involved in the negotiations on a daily basis and as it primarily concentrated on preparing policy proposals. The two political parties, FKGP and MIEP are the actors with the lowest capabilities. The stakeholders' capabilities are summarised in Table 2.

VI. Presentation of model results

Three negotiation models were used to analyse the collected datasets: the compromise model, the exchange model and the challenge model. Each model simulates the negotiation stages, based on different underlying behavioural assumptions. Before discussing the different model results, it is worth having a look at table 3, which contains all the actual outcomes of the issues, model predictions and error measurement.[11]

Table 3: Model predictions, Actual decision outcomes and Error measurement.

Issue	Compromise model prediction	Exchange model prediction	Challenge model prediction	Actual outcome
Issue 1	39	61	70	65
Issue 2	44	48	80	60
Issue 3	31	13	Stalemate, no consensus (50)	0
Error measurement				
Mean Sq. Error	631	109.6	975	*na*
Mean Abs. Error	24.2	9.67	25	

The Compromise model

The Compromise model uses all the three parameters (position, salience and capability) but is the simplest of the three models. It calculates a weighted voting result on the basis the various stakeholder positions, taking into account their different effective, without taking into account the possible shifts of positions arising as result of negotiations and realized exchanges. This model performs best when there are strict voting rules, the status of the decision makers is clear and the outcome must be a consensus of the parties, and the decision is made based on a static framework within a short period of time (the initial conditions do not change).

Table 3 shows that the Compromise model predictions are quite far from the actual outcomes. There are two main reasons for this. First of all, in the framework of the accession negotiations decisions were not made by a voting procedure between the parties. If that were the case, there would have been only two stakeholders, the Hungarian government and the EU but in this

[11] Values are the mean square error differences between actual outcomes and those predicted with corresponding values for mean absolute error difference also presented.

research, we saw that the actual negotiations followed a completely different pattern. There existed no clear rules for voting as the emphasis was placed on finding a negotiated compromise. Second, the accession negotiations were purposely conducted in a very complex framework where issues were intertwined with one another. The positions of the stakeholders changed not only because of other stakeholders' different positions but also because of the changes in the wider framework, over the span of the negotiations which lasted a long time (e.g. the liberalisation of the currency regime was fully implemented during the Hungarian accession negotiations). Since the basic assumptions of the model have been violated to such a great extent, the model could not provide accurate predictions.

The Exchange model

The second modelling approach applied was the Exchange model. This model goes beyond the Compromise model as it takes into account the exchanges of positions of stakeholders during the negotiating process, where there is a utility gain for both parties of the exchange. The results presented in Table 3 indicate that the Exchange model predictions are definitely more accurate than those of the Compromise model. The more accurate predictions show the advantage of the dynamic approach of the model and suggest that stakeholders did bargain across the issues to reach a compromise. As the negotiations took several rounds in the real framework as well, it was useful to include the possible mutually advantageous position exchanges in the model.

During the negotiations for issue 1 (i.e. the purchase of land by foreign citizens), the first tentative compromise was a proposal for a transition period of 3 years. In the model simulation, the next simulation round predicts a transition period of 5 years. In the real negotiations, the FKGP does not change its position of a 20 years transition period. The other national actors, the government and the MFA, join a position of 10 years. The European Union backs a three years transition period, but will not go any further. The model simulation follows approximately the same pattern as what happened in reality. However, because of the lack of formal voting procedures, the final outcome need not necessarily be a consensus by all parties, and a weighted mean calculation in this case models well the logic of the accession negotiations. In the final simulation round the model predicts a decision outcome, which can be interpreted as at least a five years transition period and no more than six years. In reality the actual decision outcome was a transition period of five years but the nature conservation areas were excluded from the transition period.

Observing the model simulated exchanges between actors during the negotiations for issue 2 the model shows the political party for Hungarian justice and life (MIEP) not moving its original policy position of maintaining the existing national regime. Our data collection indicated that this stakeholder attached a very high level salience to the issue. The MIEP's policy preference was also one of the most extreme positions in the negotiations. Moreover this actor was only interested in this issue, so there was little opportunity for this actor to bargain, even if its negotiating price was very high. The MFA's position remains at a transition period of 5 years.

The model simulations suggest the positions of Hungarian Government and the EU move closer together, but are still far from each other, in the final simulation round. The final prediction of the model is closer to the actual outcome than the compromise model prediction, and the model predicted changes of stakeholders' policy positions simulate the actual negotiations quite well. In reality, the EU was ready to move towards the position of the Hungarian government but was unsatisfied with the proposal made and suggested a similar but different solution: a transition period of 5 years for "secondary residences" only which was the actual decision outcome of the negotiations. This solution was politically a little closer than halfway to the Hungary's position.

The model simulation for issue 3 suggest a very short negotiation round and that the transitional period on foreign investments of institutional investors will be almost immediately accepted. The only opposing actor is the Ministry of Finance. The model prediction of 13 as final outcome was very close to 0, the actual outcome, which is a very good prediction taking into consideration that it was a dichotomous issue. In reality the Hungarian government withdrew its request for transition at a later stage of the negotiations, which effectively meant that the EU's original position of a zero transition period was agreed on[12].

The Challenge model

Looking at the results in Table 3 for the Challenge model, we can see that this model is the most in accurate model in terms of its predictions of the actual decision outcomes. The weakness of the Challenge model is that it cannot handle complex situations when there is instability in the negotiation process and the (hierarchical) status of the stakeholders is not clear. Also, the model does not perform well on dichotomous issues. On issue 1 the model predicts that the EU would shift to the other side due to a challenge of a very weak actor, the FKGP. If a very small stakeholder successfully shifts a powerful actor to the other side, it almost always indicates a very unstable situation. In reality, our research suggests that no such shift of the EU position took place. Likewise the Challenge model predicts a similar large shift in the EU's position for issue 2. On issue 2 the EU's complete shift does not seem realistic either. Moreover, this issue was not politicised to such an extent that could have justified a shift like this. On issue 3, the model predicts a stalemate and this reflects the fact that the challenge model cannot handle dichotomous issues well.

VII. Conclusions

At a very early stage of our research, we found that the two levels of decision making, the national and the EU level of negotiations could not be separated in the Hungarian accession

[12] When analysing the expected and realised utility changes, we can see that the only actor with major expected utility changes is the MFA. This actor expects a negative utility change by the exchange between land purchase and other real estate. But this is more than compensated by the externalities on the exchange between land purchase and institutional investors. This gain is very substantial.

negotiations. Instead, the EU took part as another stakeholder (but a powerful one) in the national negotiations in formulating the Hungarian government's negotiating position. It was also shown that centralising EU accession management into the MFA instead of the PMO had a dual effect. On the one hand there was a very strong continuity in the institutions in all aspects, but on the other hand it caused problems as well because the MFA used its "quasi freedom" to try to influence certain issues opposing the government's position (e.g. the outward investments of institutional investors). For example in our research all experts suggested that the MFA be a separate stakeholder from the government in all issues. The lack of the two negotiating levels was also shown in the fact that there were several stakeholders who were interested in only one issue. This is acceptable on the national level but not on the EU level. However, by the inclusion of these actors, a broader picture of the national negotiations could be presented, as we showed how a domestic interest group could exert influence on accession negotiations.

The Compromise model generated inaccurate predictions for the outcomes of the negotiations. This generally reflected the special institutional arrangements of the negotiations (i.e. the lack of formal voting rules and the unclear status of the stakeholders). Also, due to its static approach, the compromise model was unable to take into account the fact that the negotiating process lasted for a long time period and that the initial conditions and positions of the parties changed significantly in the course of the negotiations. The Challenge model proved inefficient as well. Primarily the reasons for its failure to provide accurate results reflected the lack of a clear, hierarchical status for the stakeholders and the fact that this model cannot handle very well those negotiating situations, which involve dichotomous issues. The Exchange model provided sufficiently accurate predictions for the outcomes in all issues. The model simulated the negotiating process successfully because it took into account the possible exchange of positions between the stakeholders. The time period of decision making in the accession negotiations was usually quite long except for the very final stage of negotiations and the exchanges of positions were a basic characteristic of the accession negotiations, therefore their inclusion was of crucial importance. The model also demonstrated that it is well able to model negotiation situations where there are stakeholders with high salience but very little power as well as powerful actors with only average salience.

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VIII. Appendix

Appendix 1: Data collection on authorizations issued

County	Number of issued authorizations	Number of refusals
Budapest	3 317	330
Baranya	1 028	19
Bács-Kiskun	728	12
Békés	197	6
Borsod	225	31
Csongrád	389	14
Fejér	486	29
Győr	1 919	68
Hajdú-Bihar	211	17
Heves	372	27
Jász-Nagykun	499	5
Komárom	372	26
Nógrád	91	1
Pest	863	5
Somogy	2 383	25
Szabolcs	120	22
Tolna	524	6
Vas	1 533	16
Veszprém	1 594	32
Zala	3 087	30
Total	19 938	721

Appendix 2: Event Report

Decision events

Stages in the decision making process		
Negotiating Position of Hungary 23/99		18 May 1999
Common Position 43/99		29 September 1999
Deputy level negotiations		30 September 1999
IGC (ministerial level negotiations)		07 December 1999
Technical consultation		18 January 2001
Supplementary Negotiating Position	2/01	19 January 2001
Supplementary Negotiating Position	7/01	28 February 2001
Supplementary Negotiating Position	16/01	04 April 2001
Common Position 29/01		31 May 2001
Deputy level negotiations		01 June 2001
Supplementary Negotiating Position	32/01	05 June 2001
Common Position 35/01		11 June 2001
IGC (ministerial level negotiations) (chapter provisionally closed)		12 June 2001

[1] The Inter-ministerial Committee on European Integration (ICEI) under the Ministry of Foreign Affairs guaranteed the horizontal relationship with the line ministries. For each negotiating chapter a working group under the ICEI was established. Their work began with the screening process. The working groups worked out a professional proposal for the Government's negotiating position. The negotiating position was worked out by the corresponding department within the Ministry of Foreign Affairs and based on the policy paper of the working group.