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Scenarios for the Financial Redistribution across Member States in the European Union in 2007-2013

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Executive summary

A strikingly unique and particularly important feature of EU integration is the redistribution of resources across member states. This has grown from a nearly negligible level in the early stages of the European integration to its present modest volume (approximately 1% of the Union's GNI). Redistribution of resources across member states has been gaining in significance as new relatively poor member states join the enlargement process. After the 2004 enlargement, differences in the member states' level of economic development increased significantly. Measured in terms of average per capita GNI in PPS, twelve member states are now above the EU-25 average. Thirteen member states' development levels range between the EU-25 average and less than half of that. With the accession of Bulgaria and Rumania in 2007 the lower end will be 34-35% of the then EU-27.

Redistribution across member states in the EU is designed in multi-annual financial frameworks. The full weight of enlargement-related challenges will appear in the financial perspectives for 2007-2013. Scenarios made by independent research groups prior to the February 2004 publication of the European Commission's proposal for the financial perspectives 2007-2013 reckoned with a range of options, including radical reforms focused on agricultural and cohesion expenditures. With the publication of the Commission's proposal the focus of discussions shifted to the size of the EU budget.

The Commission proposes an EU budget which amounts to 1.26% of the EU GNI in commitment appropriations (that corresponds to 1.14% in payments appropriations). The six major net payer member states insist on a smaller EU budget: it should not exceed 1% of the EU GNI in commitment terms (about 0.9% in payments). The debate on the next financial perspective takes place against the backdrop of commitment appropriations. In that context, the Commission's proposal for the total envisaged expenditures for seven years equals to EUR 1,025 billion, while the major net payers require 20.5% less expenditures, EUR 815 billion for the same period. In the Commission's proposal, expenditures were to grow annually by 4%; in 2013 they would be 31.3% higher than in 2006. In the six major net payers' version the annual growth in expenditures would only be 0.6% and the compound growth rate for 2013/2006 would amount to 4.4% only. The EU-27 GNI is estimated to grow by 17.3% over the seven-year period concerned: an annual growth rate of 2.3% (all data at constant prices).

In this paper three moderate and two radical reform scenarios for the redistribution across member states in 2007-2013 are introduced. The scenarios reflect the ongoing discussions on the size of the future EU budget, possible net financial positions of the member states, efficiency of EU transfers and finally directions of earlier reform proposals.

The first scenario *is identical to the European Commission's proposal. It represents a partial departure from the spending structure of the current (2000-2006) financial*

perspective. The newly created expenditure sub-heading Competitiveness is a resolute step towards an upgrading of programmes with 'European value-added' and establishes, with other, smaller classes of expenditures, a third major pillar of spending beside Agriculture and Cohesion. Another important new element is the introduction of a general correction mechanism to address the problem of excessive negative net financial positions.

The second scenario *stands for the proposal of the major net payer countries and reckons with a 1% of EU GNI (commitments) budget. Here, just as in all further scenarios, direct payments for farmers and market intervention and administrative costs are exempted from reductions, as CAP-related spending is compulsory while administration costs are regarded as too rigid to be reduced. The burden of reduction (close to one third on average) is therefore borne, to an equal extent, by all other expenditures.*

The third scenario *is, what concerns the size of the EU budget, a compromise 'at halfway' between the Commission's and the six major net payer member states' proposals. The expenditure structure is similar to that in the first and second scenarios.*

The fourth *and* fifth scenarios *represent radical reforms. Both are based on the assumption that the major net payer countries will succeed in reducing the EU budget to 1% of the EU GNI (commitments). It is further assumed that a smaller budget must set priorities, the practice of 'something for everyone' cannot be continued any longer. With picking up only* one *of the two leading motives for the redistribution across member states in the EU, providing 'EU-wide value-added' or enhancing cohesion (catching-up of less developed regions and member states), respectively, these scenarios operate with a radically re-drawn expenditure structure.*

The fourth scenario*, labelled 'More competitiveness', leaves expenditures for providing 'EU-wide value-added' unchanged as they figure in the Commission's original proposal. The requisite cuts to come down to a '1% budget' are made in the expenditures earmarked in the Commission's proposal for cohesion. In the* fifth scenario*, labelled 'More cohesion', the cohesion-related expenditures of the Commission's proposal are left unchanged and the expenditures for providing 'EU-wide value-added' are reduced.*

In the scenario 'More competitiveness', *while the programmes supporting the provision of EU-wide value-added can be implemented to full extent, projects enhancing catching-up will have to be reduced to hardly more than one third of that proposed by the Commission. The cuts in cohesion-related programmes will amount to EUR 27 billion in 2007 and EUR 42 billion in 2013. In 2013 expenditures on cohesion will amount to less than half the respective amount in 2006, the year preceding the accession of Bulgaria and Romania.*

In the scenario 'More cohesion', *emphasis is placed on redistribution favouring the less developed member states and regions. Unchanged expenditures (including, as in all scenarios, CAP-related and administration items), make up nearly 80% of the total envisaged for 2007 in the Commission's original proposal. This means that the remaining 20% will have to bear the brunt of the cutbacks in total expenditures so as to comply with the 1% GNI ceiling. The breakdown of expenditures by policy area clearly shows that in the first year of the new financial perspective, the policy areas affected by cuts are practically annihilated. After 2007, the situation slowly changes as the relative weight of direct payments to farmers and transfers for cohesion decreases and that for provision of 'EU-wide value-added' increases. The rate of reduction in expenditures for the latter group, compared to the Commission's proposal, drops from 92% in 2008 to 68% by 2013.*

With per capita GNI well below the EU average, the most important issue for the new member states is how much additional funding will be available to them for catching up via cohesion transfers. The Commission's intention is that cohesion-related transfers are distributed approximately in the proportion 50:50 between new and old member states, respectively.

In the first *and* fifth *scenarios (Commission's proposal, 'More cohesion') where funds for cohesion correspond to those proposed by the Commission, the eight less developed new members are able to draw cohesion transfers annually up to 4% of their GDP, Malta and the Czech Republic up to 3%, Cyprus and Slovenia up to 2% of their GDP. In the* second scenario *(1% budget, unchanged expenditure structure), even if the relatively more developed new members Cyprus, Slovenia, Malta and the Czech Republic received transfers equalling to only 2% of their GDP, and all other new members 3%, old EU members should fall back upon about one quarter (at the beginning of the period) to less than 10% of the total cohesion transfers (end of the period), instead of about 50% as earmarked in the Commission's proposal. The really bad news for new members, however, would be the realization of the* fourth scenario *'More competitiveness', which would leave cohesion transfers for the four more developed new members amounting only to 1% of their GDP and only 2% of the GDP for all other, less developed, new members. Even in this fairly meagre edition of cohesion policy for new members, the share of old members would only amount to about one third of the total instead of one half as proposed by the Commission.*

The radical reform scenarios would lead to significant shifts in the net positions of the member states, but an exact assessment of the changes by individual member states is as yet impossible. This leads to the conclusion that the general correction mechanism proposed by the Commission or even a different mechanism with an outcome of diminished variation in net financial positions by member state is an important prerequisite for any major reform of the redistribution across member states in the EU. The mere fact

that no excessive deficits may emerge as a consequence of relatively unpredictable effects should encourage the most developed EU member states to adopt a more open attitude towards changes of all kinds concerning the EU budget.

The paper discusses the main features of the position of five member states (Slovenia, Hungary, Poland, Austria and Germany) concerning selected issues of the next financial perspectives. In the search for a compromise on the size of the next EU budget, Germany's position is of paramount importance. The Stability and Growth Pact prescribes the observance of a maximum 3% budget deficit/GDP ratio in any member state. Featuring as the main financial pillar of the EU budget, Germany has been struggling with its own excessive deficit for years, while its net financial contribution to the EU budget amounted to more than 0.5% of its GNP in 1997-2000 and 0.38% of its GNP/GNI in 2001-2003. The recently proposed relaxation of the Stability and Growth Pact rules may offer remedy to the troubled relationship of the EU and German budgets.

Although the discussion on the 2007-2013 financial perspective may be concluded as early as June 2005, the possibility of the negotiations not reaching a decisive stage until the first half of 2006 cannot be excluded. This means that the first evaluation of the new members' record in the absorption of EU transfers may play an important role in the final stage of negotiations on the future budget. If the experience is overwhelmingly positive or at least acceptable in most of the new member states, no additional element will enter the discussion. However, should it transpire that all or most of the new members have encountered serious difficulties in drawing down available resources from the EU budget and are thus far behind their own projections for absorption, the discussion on the new financial perspective might take a decisive turn for the worse, from the new member states' point of view. Those calling for a smaller budget and/or less spending on cohesion would receive important arguments for the discussion.

The main conclusion of the paper is that in case the six major net payer member states succeed in getting the EU budget cut to 1% of the EU GNI, the consequences will be considerable, unless expenditures for cohesion are declared exempt from the cuts. It would be practically impossible to strike a compromise without seriously frustrating one of the two groups (old and new members). As the approval of a budget calls for unanimity, this may well lead to a serious crisis in the Union over the next two years.

Keywords: *European integration, EU, redistribution across member states, scenarios, cohesion, competitiveness, budgetary reforms, EU financial perspective, EU budget, own resources and expenditures, net financial position*

JEL classification: *F15, F36, F47, H29, H49, H77, H87, R11*

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Scenarios for the financial redistribution across member states in the European Union in 2007-2013

1 Factors governing the redistribution of resources across member states in the present and future European Union

Redistribution across member states in retrospect

The post-World War II world economy saw the rise and fall of various economic blocs in Europe, the Americas, Asia and Africa. In terms of duration and designs as to the extent of integration among its member states, the bloc known as the European Union has been the most long-lived and ambitious of them all.[1] The European Union (EU) differs from any other operational or planned entities of a similar nature as it has already progressed to being both an economic and monetary union. Moreover, with its new Constitution (once it has been ratified by all of the 25 member states) it will assume certain trappings of statehood.

A strikingly unique and particularly important feature of EU integration is the redistribution of resources across member states. This has grown from a modest level in the early stages of the European integration to its present volume. Accounting for approximately 1% of the Union's GNI, it is rather small compared to the nation-wide redistribution of resources by the general government in individual EU member states (in 2003 the figures ranged from 35.2% of the GDP in Ireland to 58.3% in Sweden)[2]; however, it is huge when viewed in the context of economic integration among independent states and also from the point of view of the major net beneficiary member states.

In the EU, the redistribution of resources across member states has been gaining in significance as new relatively poor member states join the enlargement process, integration deepens and targets become more ambitious. The systematic planning of the size and structure of the redistribution of resources across member state was introduced in the late 1980s with the first financial perspective (Delors I [1988-1992], subsequently extended to Delors II [1993-1999] and the current financial perspective, Agenda 2000 [2000-2006]).

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[1] For the sake of simplicity, this paper also uses the term 'European Union' for developments prior to 1993 when the term 'European Community' was still being officially used to describe what has since come to bear the name European Union following the Maastricht Treaty.

[2] Eurostat Yearbook 2004, p. 136.

Conceptual issues

Why are resources redistributed across member states within the European Union? This is a fundamental question. It is rational to seek the answer in the most important EU document, the Constitution (on the assumption that it will be ratified by all member states and soon enter into force). The text of the draft Constitution does not contain any direct reference to the objectives of redistribution. In Article 3 of Title I in Part I the text lists the Union's five objectives, the third of which pertains to most of those issues that have come to be associated with redistribution across member states over the past few decades.

'The Union shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and with a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance. It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child. It shall promote economic, social and territorial cohesion, and solidarity among Member States. The Union shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced.'[3]

Objective 4 sets the target for extra-EU financing from the EU budget:

'In its relations with the wider world, the Union shall uphold and promote its values and interests. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and protection of human rights.'[4]

A further section of the draft Constitution contains a detailed description of the redistribution of resources across member states without referring to any of the objectives to be achieved through the EU-wide redistribution. Title VII, The Union's Finances, describes the budgetary and financial principles, the Union's own resources and the multi-annual financial framework that will replace the financial perspectives currently applied. Finally, the Constitution stipulates that a European law shall establish the Union's annual budget.[5]

A detailed discussion of policy areas with relevance in the cross member state redistribution can be found in Part III of the draft Constitution.[6]

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[3] Constitution (2004), Part I, Title I, article 3.

[4] Ibid.

[5] Constitution (2004), Part I, Title VII, article I-55.

[6] Constitution (2004), Part III, Title III, Chapter III (Policies in other areas).

Departing from the understandably general approach of the draft Constitution, the text of the Commission's proposal for the financial perspectives in the period 2007-2013 provides a more concrete description of the aims of redistribution across member states.[7]

Formally, the Commission sets *three priorities*[8]:

- Achieving sustainable development in the Union,
- Strengthening the concept of European citizenship,
- Fostering the concept of Europe better fulfilling its role as a global partner.

This shortlist of apparently equally ranked priorities is somewhat misleading. The projected allocation of expenditures in the period 2007-2013 clearly shows that it is proposed to allocate the overwhelming majority of resources, about 87.5% (in 2007) to 85% (in 2013), to the first priority. (In the proposed financial framework for 2007-2013 spending allocated to the first priority falls under headings 1 and 2 out of a total of five headings.)[9]

Heading 1 *Sustainable development* is an umbrella category covering very different activities. Under the various sub-headings, one can find the concrete objectives; these provide an eventual answer to the question about the usefulness of redistributing resources across member states.

Sub-heading 1a *Competitiveness for growth and employment*

Concrete targets of expenditures:

- Promotion of competitiveness among enterprises in the single market
- Strengthening efforts in R&D
- Connecting Europe through EU networks
- Improving the quality of education and training in the Union
- Helping European society to anticipate and manage change

Sub-heading 1b *Greater cohesion for growth and employment*

Concrete targets of expenditures:

- Providing investment resources to improve the stock of physical and human capital so as to achieve growth rates higher than the EU-average in lesser developed member states and regions
- Providing investment resources to support EU sectoral policies, primarily in the fields of environmental protection, education, transport and energy

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7 European Commission (2004a).

8 European Commission (2004a), p. 7.

9 Own calculations based on European Commission data (2004a) Annex.

- Mobilizing additional resources for new investment from national public and private resources
- Enhancing job creation in new activities
- Contributing to partnership and good governance

Heading 2 *Sustainable management and protection of natural resources: agriculture, fisheries and environment*

Concrete targets of expenditures:

- Direct payments to and market support measures for farmers within the framework of a reformed Common Agricultural Policy (CAP);
- Rural development, an increasingly important spending target, providing an alternative to direct payments;
- Assistance to the implementation of major environmental programmes such as the EC Climate Change Programme, the Kyoto Protocol, Environmental Technology Action Plan and Natura 2000 network

Spending related to the second priority falls under heading 3 *Giving full content to European citizenship* with a share of 1.2% (in 2007) to 2.3% (in 2013) in total expenditures. Here transfers are earmarked for what appear to be more prosaic targets on the first reading. These are: protection of the Union's external borders, regulation of legal and illegal immigration, asylum policy, prevention of crime and terrorism, protection against natural disasters, health and environmental crises, reinforcing safety and security standards. Only the objective related to enhancing cultural exchange and dialogue between Union citizens lives up to the heading's title.

Heading 4 *The EU as a global partner* relates to the third priority with a share of 8.5% (in 2007) to 9.9% (in 2013) in total expenditures. It covers such spending targets as the new neighbourhood policy, aid programmes to less developed countries to help them reach the Millennium Development Goals, contributions to enhancing strategic security and civilian security within Europe and without.

Finally, heading 5 includes spending for *Administration* of the EU (with a constant 2.8% share in total expenditures) .

As we saw, the priority *Achieving sustainable development in the Union* is by far the most important area pertaining to the redistribution of resources across member states in the EU. Spending targets under this priority can be divided into two groups. In the case of the first group, the philosophy behind the spending is that of enhancing progress through increasing competitiveness, accelerating the catching-up process and helping to manage change. This group includes headings 1a and 1b, as well as the rural development and environmental programmes under heading 2. Considerations in the second group are different from those in the first. The second group under heading 2 comprises direct payments to and market support measures for farmers. Here the purpose of redistributing resources across member states is to hinder or slow down progress, i.e. to maintain agricultural activities which under undisturbed market conditions would not otherwise survive. In the financial perspective for the period 2007-2013, the Commission proposes splitting the money allocated to accelerating progress on this priority unevenly between the two groups. Expenditures enhancing progress will account for 54.5% of total planned expenditures in 2007 and 57.8% in 2013; those decelerating progress will account for 33% in 2007 and substantially less in 2013: 27.2%.

Cohesion in a new context

As the Commission's proposal for the financial perspective 2007-2013 puts it, 'The Union's cohesion policy exists to ensure solidarity *between all regions and citizens*'[10] (emphasis added). This means that cohesion should not be interpreted as an umbrella term for assistance to the less developed member states and/or regions in the EU. That would exclude more developed member states and regions from the benefits to be derived from redistribution across member states in the field of structural actions; it would seriously discourage them from participating in the economic integration process.

Cohesion was a relatively simple issue before enlargement in 2004, prior to that date the EU-15 could be seen as a rich men's club with a few relatively poor members (Greece, Portugal, Spain and, at one stage, Ireland). The situation has fundamentally changed with the entry of 10 new members; it will change still further in the same direction over the years to come in the wake of the forthcoming round(s) of enlargement (Bulgaria, Romania, Croatia, followed by other Balkan countries and, possibly, Turkey). According to the new proportions in the enlarged EU, 12 'rich' members with a per capita GDP above the EU-25 average share the contributions to, and transfers from, the common budget with 13 other member countries (Greece, Portugal and Spain as former cohesion countries, as well as all ten 'new' member states) with a per capita GDP below the EU-25 average. With the possible accession of Bulgaria and Romania in 2007, the ratio will shift to 12:15.

Average GDP per capita in the EU-25 is more than 12% lower[11] than it was in the EU-15; income disparities have doubled overall.[12] Some 92% of the population in the new member states live in regions where the GDP per capita is less than 75% of the EU-25 average,

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[10] European Commission (2004a), pp. 5-6.

[11] European Commission (2004b), p. vii. wiiw estimates, taking into account the latest data revisions, indicate a slightly lower disparity – about 9% – see Havlik, Podkaminer, Gligorov et al. (2005), p. 114, Table A/1.

[12] European Commission (2004a), p. 16.

and over two thirds in regions where it is below 50%. Following the accession of Bulgaria and Romania in 2007, the number of people living in regions with GDP per capita below 75% of the EU average will more than double: from 73 million in the EU-15 to over 153 million in the EU-27. Moreover, regional differences within the new member states are huge: a few highly developed regions stand in sharp contrast to many more regions with per capita incomes far below the EU or national average. 13 of the 41 regions in the ten new member states [13] had 30-40% of a calculated EU-25 average GDP per capita in 2001. In the same comparative analysis, 5 of the 6 Bulgarian regions and 7 of the 8 Romanian regions registered an average GDP per capita equivalent to only 20-30% of the EU-25. [14]

Fostering cohesion, however, is not the sole target of EU expenditures. Financing farmers in the member states, promoting rural development, improving the Unions´ competitiveness, enhancing pre-accession and other aid programmes and covering the administrative costs of the EU institutions are among the spending targets. In those fields the impact of enlargement is less pronounced than in the field of cohesion, but it is by no means negligible. All in all, the upcoming financial perspective for the period 2007-2013 will be drawn up under conditions that differ fundamentally from that prevailed earlier. This offers a one-time opportunity, but it also an absolute 'must' that the concept, practice and possible reform of the redistribution of resources across member states in the EU be reconsidered.

Practical aspects of redistribution across member states

Extent of redistribution

The EU budget or the redistribution of resources across member states makes up approximately 1% of the Union's aggregate GNI (see Tables 1.2 and 1.3.). That figure is quite high if we take redistribution in any other integration bloc in the world economy as our basis for comparison. Viewed, however, from the opposite extreme and interpreting the EU as the precursor of a future federal state, the extent of redistribution is extremely modest. For example, the federal budget of the USA accounts for about 20% of the country's GDP.

Here we must refer to an important asymmetry. Whereas the EU has redistributive power over only a small fragment of its members' GNI, its influence in terms of regulation, i.e. its regulatory power, is far greater.

The EU enjoys *exclusive competence* in:

– Issues concerning the customs union

[13] Estonia, Latvia, Lithuania, Cyprus, Malta and Slovenia were each considered one region.

[14] Andreas Krueger (2004).

– Establishing the rules governing competition that are essential to the functioning of the internal market
– Monetary policy for those Member States whose currency is the euro
– Common commercial policy and certain segments of the common fisheries policy
– Concluding international agreements in qualified cases[15]

The EU *shares* competence with the member states in the following areas:
– Internal market
– Certain aspects of social policy
– Economic, social and territorial cohesion
– Agriculture and fisheries
– Environment
– Consumer protection
– Transport and trans-European networks
– Energy
– Freedom, security and justice
– Certain aspects of common safety concerns in public health matters

In the areas of *research, technological development* and *space*, the EU is empowered to *undertake actions*, in particular to define and implement programmes; however, exercising that competence does not mean that Member States are prevented from exercising their own competence. This also applies to the areas of development cooperation and humanitarian aid.[16]

The EU has the competence to *coordinate* economic and employment policies in the Union. The Council can adopt measures, in particular broad guidelines relating to those policies. The member states' fiscal policy is strictly monitored within the framework of the Stability and Growth Pact. Specific provisions apply to those member states whose currency is the euro. The Union takes measures to coordinate the member states' employment policies, in particular defining guidelines for those policies. The EU may also take initiatives to ensure the coordination of member states' social policies.[17]

The Union's competence in matters of *common foreign and security policy* covers all areas of foreign policy. It also covers all questions relating to the Union's security, including the gradual elaboration of a common defence policy, which might ultimately lead to a common

[15] Constitution (2004), Part I, Title III, Article I-13.
[16] Constitution (2004), Part I, Title III, Article I-14.
[17] Constitution (2004), Part I, Title III, Article I-15.

defence system.[18] (Under the present rules, the EU competence in this field is based on intra-governmental cooperation.)

The EU is also empowered to undertake *supporting, coordinating* or *complementary actions* at the *European* level in a number of fields.

Although this regulatory power is not measurable in quantitative terms, the *acquis communautaire* and its significance to member states cannot be compared in any way to the financial means that the EU has at its disposal and redistributes among member states. In short, though a financial dwarf, the Union is a regulatory giant.

As for the future, although the *extent* of redistribution across member states will be one of the most fiercely debated issues in the run-up to the financial perspective 2007-2013, a major change in the order of redistribution across member states is not very likely.

– *Eliminating* the EU budget (not too big a step, involving a cut in redistributed resources from 1% to zero) or *reducing it substantially* below the present 1% would be tantamount to abandoning the objectives of the European integration; it would culminate in the dissolution of the EU.
– Reducing the volume of redistribution could be coupled with delegating the implementation of the EU's objectives to the member states; this would heighten the contradiction between the strong regulatory and weak redistributive power still more than it is today.
– *Increasing* redistribution also seems unlikely in the light of the six net payer countries' protest[19] against the Commission's proposal to increase the redistribution of resources across member states to 1.14% (appropriations for payments, on average 2007-2013) in the next financial perspective. That protest, however, must be seen in the context of those member states' net financial position in the enlarged EU; it should not necessarily be related to the extent of redistribution. Effectively limiting a *net payer's position* up to a fixed ceiling would place the whole redistribution issue in a new context. Nevertheless, even if such a ceiling were to be introduced, any substantial increase in the redistribution of resources across member states is inconceivable without a momentous decision to depart from the present stage of political integration and move towards a federal European state. A decision of that scale is not on the current agenda of the EU.
– Intensifying co-operation between a certain number of member states (the core EU), a recurrent idea that appears from time to time, would not entail an EU-wide change in redistribution.

18 Constitution (2004), Part I, Title III, Article I-16.

19 Joint letter of the leaders of the six major net payer member states to Commission president Romano Prodi, 15 December 2003. http://www.euractiv.com/Article?tcmuri=tcm:29-130497-16&type=LinksDossie!

Table 1.1

Extent of the EU budget according to the financial perspective 2000-2006

(EUR million)

	Current prices					2004 prices	
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Total appropriations for commitments	**93792**	**97189**	**100672**	**102145**	**115434**	**117526**	**118967**
Total appropriations for payments	**91322**	**94730**	**100078**	**102767**	**111380**	**112260**	**114740**
Ceiling, appr. for payments as % of GNI (ESA 95)	1.07%	1.08%	1.11%	1.09%	1.08%	1.06%	1.06%
Margin for unforeseen expenditures	0.17%	0.16%	0.13%	0.15%	0.16%	0.18%	0.18%
Own resources ceiling as % of GNI	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

Source:http://europa.eu.int/comm/budget/pdf/financialfrwk/enlarg/tables_EN_publication_1.pdf

Table 1.2

Extent of the EU budget according to the financial perspective 2007-2013 (Commission's proposal)

(2004 prices)

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total appropriations for commitments	**133560**	**138700**	**143140**	**146670**	**150200**	**154315**	**158450**
Total appropriations for payments	**124600**	**136500**	**127700**	**126000**	**132400**	**138400**	**143100**
Appropriations for payments as % of GNI	1.15%	1.23%	1.12%	1.08%	1.11%	1.14%	1.15%
Margin available	0.09%	0.01%	0.12%	0.16%	0.13%	0.10%	0.09%
Own resources ceiling as % GNI	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

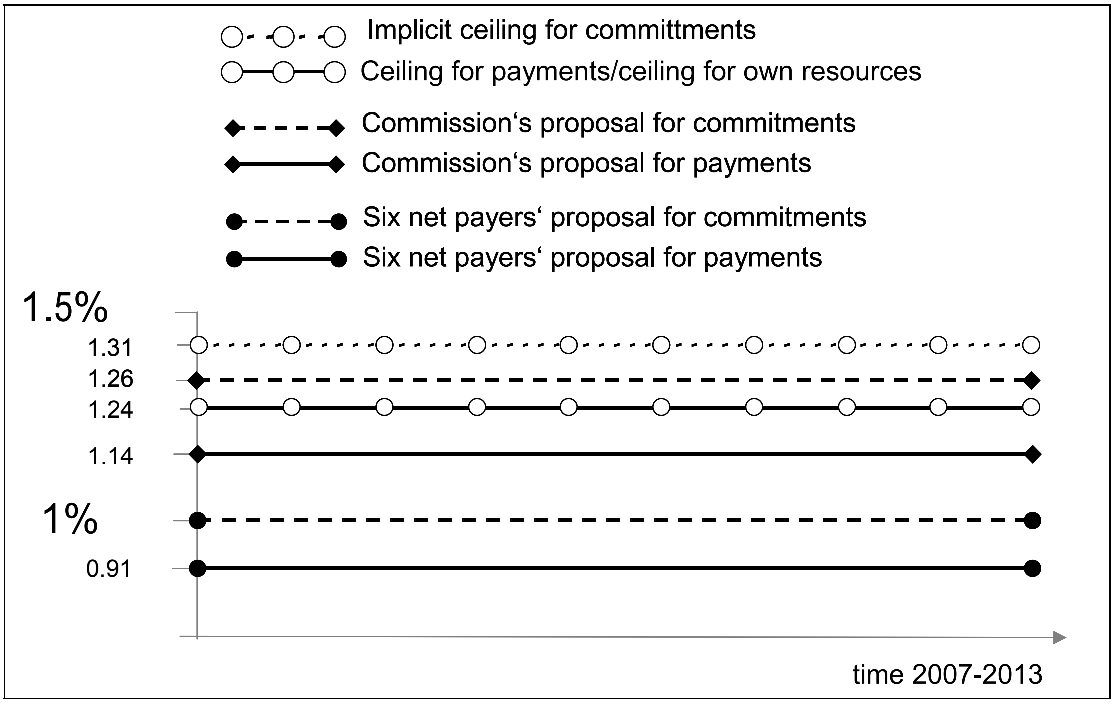
(a) 2006 expenditure under the current financial perspective has been broken down according to the proposed new nomenclature for reference and to facilitate comparisons.

Source: European Commission (2004a), p. 43.

Figure 1

EU financial perspective 2007-2013: commitments and payments

in % of the EU GNI (period average)



Source: Table 1.3 and Council of Europe (2005) p.5.

Table 1.3

Commitment and payment appropriations 2007-2013

EUR million, 2004 prices

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2007-2013**
Commitments in % of payments, Commission's proposal	107	102	112	116	113	111	111	**110**
Commitments								
Expenditures as proposed by the Commission	133560	138700	143140	146670	150200	154315	158450	**1025035**
Reduced expenditures as proposed by the six net payer countries	106191	110280	113811	116617	119422	122695	125983	**814999**
Payments								
Expenditures as proposed by the Commission	124600	136500	127700	126000	132400	138400	143100	**928700**
Reduced expenditures as proposed by the six net payer countries								**741000***
GNI calculated (from payment appropriations, given as % of GNI)	10834783	11097561	11401786	11666667	11927928	12140351	12443478	**81512553**
Expenditures, in % of the EU GNI								
Commitments: as proposed by the Commission	*1.23*	*1.25*	*1.26*	*1.26*	*1.26*	*1.27*	*1.27*	***1.26***
Commitments: as proposed by the six net payer countries	*0.98*	*0.99*	*1.00*	*1.00*	*1.00*	*1.01*	*1.01*	***1.00***
Payments: as proposed by the Commission	*1.15*	*1.23*	*1.12*	*1.08*	*1.11*	*1.14*	*1.15*	***1.14***
Payments: as proposed by the six net payer countries	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	***0.91***

Notes: * Calculated using the commitment/payment proportion of the Commission's proposal

Source: Table 1.2; Table scenario 1A, Council of the European Union (2004a); Council of the European Union (2004b); Table 4.1; own calculations.

National co-financing

Nearly two thirds of the programmes financed by expenditures from the EU budget require co-financing from national sources by the recipient countries. In the Commission's proposal for 2007-2013 Heading 1 Sustainable growth with two sub-headings Competitiveness and Cohesion, as well as rural development and environmental protection from heading 2 Preservation and management of natural resources belong to those segments of EU expenditures which are, without exception, conditional on national co-financing. Required rates of national co-financing range from 70% (for programmes in highly developed member states) to 15% (for certain, but not all, programmes in the less developed member states).

With its national co-financing requirement, the EU has substantially broadened the scope of its redistributive leverage. That part of national public expenditures which is linked to EU transfers as national co-financing is not part of the redistribution across member states in financial terms. It is an integral part of the member state's budget, yet in certain other important respects (objective to be attained, operational programme for spending, modalities of spending and control) it is an integral part of the redistribution of resources across member states.[20] Any member state may decide not to provide national co-financing, in which case, however, it will be excluded from the most important segments of transfers to member states. As member states cannot opt to stop contributing to the EU budget, non-observance of the EU rules in this respect would lead to a serious deterioration in that member state's net financial position vis-à-vis the EU budget. The expenditures that were not allocated to co-financing EU transfers may be used to fund other non-EU-related programmes; those programmes, however, would have to be extremely efficient in order to offset the deterioration in the country's net financial position.

The less advantageous the EU co-financed programmes for an individual member state may appear, the greater the temptation not to participate in those programmes. A substantial portion of the available resources is not drawn on by the member states.[21] Nevertheless, complete disregard for EU co-financed programmes is highly unlikely as member states are involved, from the very beginning, in the related decisions and ultimately they vote on the spending programmes concerned.

It is important to distinguish between *financing* and *modality* of decisions. In both fields competences are shared between the EU and the individual member state, and the proportions may change from programme to programme. As for the composition of that mix, a distinction has to be made between four segments:

[20] It should be noted here that only part of the national co-financing comes from national budgets (central government, local government), a smaller portion derives from private sources (business sector, NGOs).

[21] Weak absorption capacity may, however, play an important role even in the case of 'old' EU member states.

a) Programmes where the EU is the sole source of financing and all modalities are determined at the EU level. The most important example is agriculture, viz. direct payments to farmers and market intervention;[22]

b) Programmes where the EU provides co-financing and sets the rules, while the member states provide co-financing from national resources. Most transfers fall into this category;

c) Programmes where the EU does not provide financing (it derives wholly from national resources), but sets the rules on spending, cf. state aid. From time to time, discussions arise about re-nationalizing certain spending programmes (e.g. regional policy). Furthermore, investment projects have to be implemented in order to comply with the *acquis* (environmental protection, e.g. community sewage systems). In such cases, it is merely the obligation to spend on those projects that comes from the EU membership;

d) Finally, there are programmes where the financial resources stem from the member states´ budget and the EU has nothing to do with the rules of spending in that field. In a certain way, those programmes are still related to EU-financed programmes as they compete with them for scarce budgetary resources. The principle of additionality is important here. It should ensure that public expenditures in the field concerned will not drop compared to pre-transfer levels. In other words, EU financing *adds* to the level of financing in the field concerned and *is not a substitute* for national financing.

The influence that the EU has over the modalities of spending is certainly strongest where all funds come from the EU budget. It weakens as the EU share in funding lessens.

From the EU point of view, a plausible target may be to secure maximum influence at minimum cost. That can be attained in two different ways. First, by rearranging the four segments listed above and shifting programmes from (a) to (b) and perhaps to (c); in the latter group, however, EU control over spending may be too loose to maintain a desirable degree of programmatic coherence. Secondly, in group (b) where financing is mixed (EU and member state), the share of EU financing can be reduced. Regions in rich member states may be required to pay higher national co-financing than they currently pay. (Whether transaction-costs related to the application procedure for EU transfers will still allow participation at high rates of national co-financing, is quite another issue). In rich countries, the present, albeit low drawing rate may well drop as a consequence. That is not necessarily a bad thing as it will help to filter out only those programmes that are really important and at least half-way efficient.

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[22] For the 'new' members a provisional solution has been found, insofar as during the first year of membership they receive only 25% of the direct payments they would be entitled to receive, were they 'old' members; however, a top-up of a further 30% from national resources is permitted. This top-up payment remains in effect as long as the annually increasing EU-financed portion plus the top-up does not exceed 100% of the direct payments they would be entitled to receive, were they 'old' members.

The high national co-financing rate would bring EU-supported programmes closer to the philosophy and practice of subsidies in developed market economies (more preferential credits and less unrequited transfers). More flexibility at this juncture would allow for solutions such as capping available resources with a low national co-financing rate at a modest level and at the same time making optional additional transfers available for progressively higher national co-financing rates.

Net financial position

Anyone who tries to measure the Union-wide budgetary balances has to cope with mounting conceptual and accounting problems. Numerous choices have to be made in computing budgetary balances on the items to be included in the revenue and expenditure flows, and on the reference periods (e.g. cash vs. accrual figures, surpluses from previous years, etc.). The resulting budgetary balances vary significantly depending on the choices made.[23]

There is no widely accepted methodology for the calculation of this indicator. In the discussion on the UK rebate, it turned out that there are more than thirty different ways of calculating the amount, all leading to equally firm and defensible, yet different results.[24] It is also unacceptable to judge the advantages (or disadvantages) of EU membership solely on the strength of the balance of financial flows to/from the EU budget to/from a member state. Quantification of the benefits to be derived from the Single Market or Monetary Union is difficult, if not impossible. Research and development, environmental protection and many other kinds of expenditures benefit not only the immediate recipients but, through spill-over effects, a much broader circle of EU citizens.

Any indicator of the net financial position can only reflect direct financial flows. Secondary effects and indirect financial flows generated by those effects are, however, not less important. At least 25% of transfers for the cohesion countries in the framework of structural actions flow back to the main net payer member states as compensation for goods imported from those countries.[25] Certainly, unilateral transfers cannot be compared to additional export revenues which should cover the costs of the goods delivered. Furthermore, transfers are ultimately financed from budgetary revenues that impose a burden on the whole economy of a net payer member state, while the above mentioned additional export revenues (and benefits) are concentrated on delimited segments of a member state’s economy. Moreover, these indirect benefits are not distributed evenly across the net payer countries. In the enlarged EU, traditional exporters with high market

[23] European Commission (2004c), p. 19.

[24] European Commission (1998), Annex 3,. p. 5.

[25] European Commission (2004b), p. XVII.

shares in the new member states (Germany, Austria and, to a lesser extent, Italy) are likely to gain substantially more from additional export opportunities than France, the UK or the Netherlands.

Why do the net positions differ so much from country to country, even within the basically homogenous groups of net payers and net recipient member states? (See Tables 1.4; 1.5 and 4.13 in Chapter 4.) The reason is that both the own resources system (the contributions to the EU budget) and the transfers from the EU budget are products of a long evolutionary process. They comprise a number of individual items, the significance of which differs from member state to member state.

The EU's own resources system incorporates three components: first, the traditional own resources component (TOR) which represent three quarters of the customs revenues collected by member states on the external borders of the EU, agricultural customs and levies; second, a value-added tax component; and finally a GNI based component. The first two components may vary widely, depending on the member state's geographical location, for example. (cf. the Czech Republic surrounded by the EU on all sides and the island-state Ireland). The third component, a uniform GNI proportional contribution serves to offset partially the differences between member states attributable to national variances in the two first components.

Transfers from the EU budget differ much more widely than contributions. The extent of agricultural transfers depends on the significance of agriculture, farm structure and agricultural output structure in individual member states. Structural Policy transfers are partly dependent on a member country's general level of development (a member state whose level of development is below 90% of the EU-average qualifies for Cohesion Fund transfers). Other determinants are the number and economic weight of regions with a level of development below 75% of the EU-average, the need to cope with high unemployment and industrial restructuring or overcome constraints related to geographical location (these regions also receive Structural Funds transfers). Participation in other smaller programmes is also unevenly distributed among member states. The varying degree of intensity with which a member state participates in individual EU co-financed programmes is another main reason for their different net financial positions.

One of the main concerns accompanying the preparations for the recent EU enlargement was that the less developed new members would gobble up enormous amounts of transfers.[26] That concern was based on an extrapolation of the transfers received by the four cohesion countries in the period prior to the EU enlarging to twelve new members. To all intents and purposes, the risk of over-financing the new members was eliminated by: (a)

26 For a review of literature on calculations of the costs of EU enlargement in the early 1990s see Baldwin (1994).

introducing the 4% GDP proportional ceiling for Structural Policy transfers plus rural development and fisheries related transfers; and (b) ‘phasing in’ direct payments for a longer period while freezing direct payments at the 2006 level.

All that notwithstanding, the EU underwent a fundamental change in May 2004. The number of potential net recipient countries increased by ten: from 3 to 13 (as of 2007 this number will rise to fifteen). The number of potential net payers increased by one (Ireland): from 11 to 12. This significant reconfiguration in the allocation of transfers across member states in the post-enlargement period once again gave rise to the question of net financial positions. It also offered a good opportunity to recommend replacing the UK rebate by introducing a general correction mechanism in instances of excessive negative net financial positions for all net payer countries.

The current complicated system is the outcome of various contradictory guiding principles in the EU. Redistribution across member states is expected to be both transparent and fair. It should also reflect financial autonomy, that means that financing the EU budget should take place under the condition of a sufficient degree of autonomy from national treasuries in order to check the trend towards a narrow focus on national interests. It should also rely to a significant degree on a direct link with citizens/taxpayers in order to avoid endless battles instigated by insistence on maintaining a ‘juste retour’ approach that measures the benefits of integration solely in terms of net financial positions.[27]

Instead of simplifying the member states´ contributions to one transparent component, the traditional own resources component is maintained because it is seen as an element reflecting financial autonomy.[28] This component is supplemented by the contribution from the notional harmonized VAT base. As the significance of these two components varies from member state to member state, it has to be matched by the GNI-based system, which is designed to correct, to a certain extent, the cross-country variations emerging after the application of the first two components. Both the VAT and the GNI-based contributions are paid from national treasuries; thus, they do not conform to the wishful pan-European thinking. However, they are indispensable for the operability of the revenue side of the EU budget. The final outcome, the net financial position of the individual member states, varies from year to year and from member state to member state. Owing to the influence of so many divergent factors both on the revenue and expenditure side of the EU budget, it is difficult to find any logic in the time-series of net positions, except for the fact that typically the cohesion countries have net surpluses (although they vary greatly across countries and in individual years), while highly developed member states record negative balances (they too vary across countries and in individual years).

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[27] European Commission (2004c), p. 9.

[28] Certainly, as the EU is a customs union, there is no reason to leave customs revenues at the disposal of the national budget of the collecting site.

Table 1.4

Contributions to own resources by member states, 2001-2003

	2001			2002			2003		
	Share in contributions to own resources (A)	Share in EU GDP (B)	Difference (A)-(B)	Share in contributions to own resources (A)	Share in EU GDP (B)	Difference (A)-(B)	Share in contributions to own resources (A)	Share in EU GDP (B)	Difference (A)-(B)
Belgium	4.38	2.87	1.51	3.88	2.84	1.04	4.17	2.90	1.27
Denmark	2.20	2.01	0.19	2.17	1.99	0.18	2.13	2.02	0.11
Germany	24.44	23.38	1.06	22.63	22.95	-0.32	22.96	22.86	0.10
Greece	1.67	1.48	0.19	1.72	1.54	0.18	1.83	1.64	0.19
Spain	8.17	7.37	0.80	8.43	7.61	0.82	8.88	8.00	0.88
France	17.93	16.64	1.29	18.21	16.63	1.58	18.12	16.73	1.39
Ireland	1.50	1.29	0.21	1.31	1.41	-0.10	1.35	1.45	-0.10
Italy	14.39	13.74	0.65	14.52	13.73	0.79	14.06	13.97	0.09
Luxembourg	0.32	0.25	0.07	0.24	0.25	-0.01	0.24	0.26	-0.02
Netherlands	6.83	4.84	1.99	5.75	4.85	0.90	5.88	4.88	1.00
Austria	2.59	2.43	0.16	2.33	2.41	-0.08	2.31	2.43	-0.12
Portugal	1.57	1.38	0.19	1.53	1.40	0.13	1.55	1.40	0.15
Finland	1.53	1.53	0.00	1.52	1.52	0.00	1.60	1.53	0.07
Sweden	2.90	2.76	0.14	2.68	2.80	-0.12	2.99	2.87	0.12
UK	9.59	18.03	-8.44	13.07	18.08	-5.01	11.92	17.07	-5.15
EU-15	**100.00**	**100.00**	**0.00**	**100.00**	**100.00**	**0.00**	**100.00**	**100.00**	**0.00**

Source: Own calculations based on European Commission (2004d), p. 99.

Table 1.5

Allocation of operational expenditures by member states in various policy areas, 2003

	Agriculture (A)	Share in EU-15 GDP (B)	Difference (A)-(B)	Structural operations (A)	Share in EU-15 GDP (B)	Difference (A)-(B)	Internal policies (A)	Share in EU-15 GDP (B)	Difference (A)-(B)	Total operational expenditures (A)	Share in EU-15 GDP (B)	Difference (A)-(B)
Belgium	2.31	2.90	-0.58	0.42	2.90	-2.48	11.11	2.90	8.21	2.18	2.90	-0.72
Denmark	2.76	2.02	0.74	0.37	2.02	-1.65	2.39	2.02	0.38	1.86	2.02	-0.16
Germany	13.24	22.86	-9.62	13.31	22.86	-9.54	16.22	22.86	-6.64	13.46	22.86	-9.40
Greece	6.22	1.64	4.58	6.71	1.64	5.06	3.31	1.64	1.66	6.21	1.64	4.57
Spain	14.61	8.00	6.61	31.74	8.00	23.74	6.42	8.00	-1.58	20.36	8.00	12.36
France	23.58	16.73	6.85	6.95	16.73	-9.78	13.60	16.73	-3.13	16.86	16.73	0.13
Ireland	4.43	1.45	2.98	2.12	1.45	0.67	1.69	1.45	0.25	3.41	1.45	1.96
Italy	12.15	13.97	-1.82	15.96	13.97	1.99	11.93	13.97	-2.04	13.53	13.97	-0.44
Luxembourg	0.10	0.26	-0.16	0.02	0.26	-0.23	1.96	0.26	1.70	0.19	0.26	-0.07
Netherlands	3.15	4.88	-1.73	0.77	4.88	-4.11	6.53	4.88	1.66	2.49	4.88	-2.39
Austria	2.54	2.43	0.11	1.06	2.43	-1.37	2.63	2.43	0.21	2.00	2.43	-0.42
Portugal	1.93	1.40	0.53	13.14	1.40	11.75	3.13	1.40	1.73	6.11	1.40	4.71
Finland	1.97	1.53	0.44	1.15	1.53	-0.38	2.38	1.53	0.85	1.70	1.53	0.17
Sweden	1.95	2.87	-0.92	1.39	2.87	-1.48	3.38	2.87	0.51	1.84	2.87	-1.03
UK	9.04	17.07	-8.03	4.89	17.07	-12.18	13.31	17.07	-3.76	7.80	17.07	-9.27
EU-15	**100.00**	**100.00**	**0.00**	**100.00**	**100.00**	**0.00**	**100.00**	**100.00**	**0.00**	**100.00**	**100.00**	**0.00**

Source: Own calculations based on European Commission (2004d), pp. 93-94.

If a lack of interpretability of each member state's annual balance positions is a sign of a good European approach, the system can be said to be functioning well. Whether the outcome is perceived as fair and helps to obviate member states adopting a 'juste retour' approach is another question. The possibility of the 'juste retour' approach ultimately breaking through is borne out by Mrs. Thatcher's famous declaration 'I want my money back' in 1984 at the Fontainebleau European Council, which ultimately led to the birth of the 'UK rebate'.[29]

Nevertheless, the net financial position is not at the forefront of discussions about redistribution across member states. The six net payer member states focused their criticism on the *extent* of redistribution. Germany's position was especially remarkable; it suggested that the redistribution on expenditures be focused on the less prosperous member states. That would mean that although Germany's contributions to the EU would diminish, its net financial position would not necessarily improve as it would lose the bulk of the EU transfers to its eastern federal states (the former GDR).

As already mentioned, the Commission proposes introducing a general correction mechanism for excessive negative budgetary balances. The correction mechanism proposed is to be calculated on the basis of the net budgetary balance of each member state in relation to the EU budget. The mechanism would be triggered if net contributions exceeded a certain threshold, equivalent to the minimum acceptable level of unlimited financial solidarity between member states. Net positions exceeding that threshold would qualify for a partial refund thus guarding against excessive net contributions.[30]

Changing composition of expenditure and own resources items in the EU budget

Historical context

Prior to 1965, the EU budget was insignificant. Over the period 1965-1970, it increased from a negligible value to some 0.4% of the EU GDP. In that period the overwhelming majority of spending was absorbed by agriculture. By 1985, the budget had surpassed 0.8% of the EU GDP; however, despite the growing significance of structural policies, internal policies, external actions and administration, close to two thirds of expenditures still went to agriculture. With the accession of Spain and Portugal, the relative weight of structural policies began to grow; by 2000 it already accounted for one third of total expenditures.[31]

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[29] Although technically very complicated in terms of its calculation, the underlying principle of the UK correction is quite simple; it is the reimbursement of the United Kingdom's net contribution (66% of the total) to the EU budget.

[30] European Commission (2004c), p. 40.

[31] European Commission (2004d).

Conflicting expenditure targets

As for the extent and composition of the EU budget expenditures, the former has primacy. Allocation among various potential expenditure targets can be discussed only within a pre-fixed amount of available funds (own resources ceiling) that is determined as a given % of the EU GNP/GNI. This means that expenditure targets have always competed with each other. Unlike national budgets, excessive spending that might ultimately lead to a negative budgetary balance, and hence indebtedness, was never allowed.

Taking the expenditure targets, the first obvious division is the one between internal and external spending, the latter making up only a modest share of total spending. Within internal spending, administration is also relatively modest. As for its share in total expenditures, it figures as a constant spending target.

The remaining areas are the main battlefields of reallocation. Different philosophies of spending clash with each other. Most expenditures within the framework of the Common Agricultural Policy (direct payments, market interventions) are based on a primarily protectionist concept of shielding EU farmers from the potentially devastating effects of competitive pressures on the world market. Expenditures within the framework of the Structural Policies are basically aimed at assisting recipients (member states, regions, municipalities, firms, NGOs etc.) so that they can compete under undistorted market conditions. In the current financial framework, the CAP has received a second pillar: rural development which accounts for about 10% of total agricultural expenditures. Rural development departs from the protectionist philosophy of agricultural spending and fits the concept of Structural Policies. Internal policies, a mixed portfolio of such items as research, infrastructural networks and student mobility, also fit in with the philosophy of enhancing the recipients' ability to compete in undistorted market conditions.

Any reform of the expenditure side has to start with setting a priority: protection from competition or improving the ability to compete. Without doubt, the general EU approach is the latter priority (viz. the Lisbon strategy). Spending on traditional agricultural policies is on the retreat. Expenditures on the CAP, however, are and will remain obligatory up to 2013.[32] Common sense would demand that direct payments be phased out and partially replaced by rural development. One solution would be to re-nationalize agricultural subsidies (which, however, would remain under the purview of the EU so as to secure equal competitive conditions). Unless accompanied by diminishing protectionism, it would not release resources within the EU budget, as member states would simply shift expenditures from the EU budget to their national budgets and so continue subsidizing their farmers. Should protectionism be radically reduced as required by the WTO, re-allocation of EU

[32] Pursuant to the decision of the European Council October 2002 on agricultural expenditures after 2006.

expenditures for more competition-friendly agricultural spending (rural development) and/or for targets other than agriculture would be possible.

The next major dividing line runs between expenditures targeted at improving the recipients' ability to compete. Here it has to be decided whether EU budgetary support should help good performers become even better, or whether it should help member states and/or regions lagging behind to catch up with the highly developed member states/regions. The clash of philosophies is evident in the Commission´ proposal that the next financial perspective include two major expenditure sub-headings: Competitiveness and Convergence. As will be shown later, the practical aspect of the problem may be seen as opting for one of two decisions: more growth with increasing disparities or less growth with decreasing disparities.

Own resources: changing composition

Own resources serve to secure the financing of expenditures from the EU budget. Historically, they grew out from TOR, followed by the VAT-based contributions and a marginal share of miscellaneous sources. From 1987 onwards, own resources were supplemented by a GNP (from 2001 GNI) proportional contribution which, by the end of 1990s, had become the most important funding item in the EU budget. In 2004, TOR made up 11.4%, VAT-based contributions 14.6 % and the GNI-proportional share 73.4% in total revenues of the EU budget.[33]

Certainly it would be the simplest solution to earmark each year a part of the member states´ GNI and transfer that sum automatically to the EU budget. That, however, would contradict the principle of 'financial autonomy', i.e. the financing of the EU budget should be as independent of national treasuries as possible in order to 'reduce the tendency towards a narrow focus on national interest'.[34] It is also designed to establish a direct link to the citizens/taxpayers in the member states who should be able to see and understand how the EU budget is financed. This interpretation of financial autonomy neglects the fact that member states are certainly focused on their national interests, but the focus has shifted to other aspects: the issue of their net financial positions, and to a lesser degree, the extent to which the EU redistributes resources across member states. The present own resources system lacks transparency and makes a mockery of the desired 'direct link' to the EU taxpayer.

[33] European Commission (2004c), p. 8.

[34] European Commission (2004c), p. 9.

In order to remedy those problems the Commission has proposed a partial reform.[35] It would preserve the TOR and the GNI-based contributions; however, instead of the present VAT resource, it would introduce a fiscal own resource, based on energy consumption, corporate income or a newly designed VAT resource. As this resource would depend on business cycles, the GNI-based own resource would maintain its role as the residual balancing factor.

Although the proposed new EU tax in itself may be simple and transparent, and in this sense conducive to establishing a direct link to the EU citizen taxpayer, the own resources system as a whole with its three components would remain as complicated and non-transparent as it is today. The individual member state contributions would still vary, even after this reform. Indeed it is unlikely that the problem will be resolved until a uniform percentage-based GNI-proportional contribution is introduced as the sole revenue item. Member states inevitably pursue their national interests in all budget-related issues. A uniform rate of GNI-based contribution would completely neutralize the area of contributions to the EU budget; defending national interests would be confined to discussions on the scale of redistribution, expenditure allocations among member states and the net positions. With one battlefield less, more clear and transparent conditions and guidelines could be created to provide an appropriate setting for this vexed issue and so facilitate a positive outcome.

Focusing

Focusing implies choosing between competing philosophies of redistribution: protectionist or competition-friendly expenditures, support of excellence or fostering convergence, and concentrating transfers on less developed member states or less developed regions. Focusing may be centrally coordinated, implying a change in priorities decided upon consensually at the EU level. An alternative approach could be a partial or radical departure from the centralized practice and allowing groups of member states different levels of focus.[36] Another radical solution would be to allow member states their own specific focus, thus opening up options to more than one pre-set pattern of expenditures or providing for a completely free composition of expenditures within a national envelope, certainly within the framework of well designed spending guidelines. An even more radical departure from the present system would be to permit diversified focusing coupled with differentiated national co-financing rates and optional re-nationalization (full or partial) of certain policy areas.

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[35] European Commission (2004c).

[36] For instance, member states above the EU-average as distinct from those below or relatively more developed cohesion countries between 60-90% of the EU-average as against countries below 60% of the EU-average)

Given the greater heterogeneity of member states after the 2004 enlargement, diversified focusing (by groups of member state or by individual member states) seems to fit better the needs of the EU-25 than either the current practice of expenditure allocation or the one envisaged in the financial perspective proposed for the period 2007-2013. A detailed elaboration of new, less unified rules for the allocation of expenditures must precede the strategic decision on diversified focusing. Without setting precise limits to diversity and determining the pre-conditions for using the available resources, a decision that permits diversified focusing may well open up a Pandora's Box.

Whatever variation, focusing must take into consideration the original intent of cohesion, whereby each member state contributes to and receives transfers from the EU budget, with the above-average member states receiving less than the relatively poor member states. This means that focusing is feasible, only if acceptable net positions emerge after the pattern of redistribution has been re-set.

Efficiency – fairness – feasibility

Essential to any important reform is that each member states perceives it as something fair since all decisions on the budget's own resources have to be unanimous.[37] Thus, a general perception of fairness is a prerequisite for feasibility. Shared assumptions about improved efficiency can justify reforms ex-ante and, more importantly, ex-post. Efficiency-enhancing reforms that are perceived as unfair by one or more member states have no chance of getting through.

In the current redistribution across member states most of the expenditures are allocated among member states ex-ante; only in a very limited segment of expenditures does some sort of free competition prevail (e.g. the six scientific framework programmes.) All that is likely to change in the new financial framework, since heading 1a Competitiveness allows much more competition for resources across applicants from individual member states. Whether deviations from the customary patterns of allocation across member states will be tolerated, and to what extent, is an open question. Here we immediately encounter the constraints on efficiency-based redistribution. Were efficiency-based redistribution to create groups of obvious losers or winners, that would lead to a spectacular deterioration or improvement in the net financial positions of individual member states, with all its implications. It would mean that reforms which increase efficiency while changing the perception of fairness give rise to serious constraints; in all likelihood, free competition for EU resources will thus be mainly confined to participants *within* individual member states.

[37] On the expenditure side, a qualified majority is required.

Regional policy support from the common budget was introduced in 1975 with the purpose to reduce the discrepancies in the level of development among regions in the individual member countries. In 1994 this original purpose was complemented by the aim of enabling less developed member states to meet the requirements set for introducing the euro.

After more than two decades of Structural Policy, the following questions can be raised, if we wish to assess the efficiency of past structural actions and obtain some insight into the future programmes:

- Have differences in level of development across regions in individual member states and across the EU as whole decreased?
- Have differences in the level of development across member states decreased?
- If the differences have decreased, what role did structural policies play in this development?
- How have Structural Policies brought about changes in the level of development?
- What other impact have Structural Policies had?
- Do economic theories help us to understand the changes in relative economic development levels of member states and or regions?
- What should future Structural Policies look like?

Statistical data show changes in the relative level of development at national and regional levels in individual member states. Convergence at the national level took place in the case of the four cohesion countries which had been below the EU-15 average per capita GDP in the 1980s. Convergence was most spectacular in the case of Ireland: up from 64% of the EU--average in 1988 to 119% by 2000. However, the three other countries Spain, Portugal and Greece, shifted too over the same period: up from the 68% to 79% of the EU-average.[38]

As for the regional approach, relative differences in the level of development vary across member states. As a rule, the differences tended to increase or did not change, except in a limited number of member states (see Table 1.6).

Over the period 1989 -1994, in only three of 12 EU member states did regional differences within the country decrease (Germany, Portugal and the UK). In four member states, the change in disparities remained within +/- 1 percentage points, i.e. to all intents and purposes disparities did not change. In five member states, however, regional differences increased over the period concerned. In the period 1995-2001, disparities increased in a majority of the member states investigated (seven out of 13 countries); in three they remained unchanged, and in another three (Austria, Germany and Italy) they decreased. If

[38] European Commission (2002), p. 8. See also Laski and Römisch (2003) on the subject.

we take into consideration, that the decrease in disparities in Germany undoubtedly had more to do with the enormous volume of internal West–East transfers than with Structural Policies, only two member states can be seen to have caught up regionally in both periods.

That catching-up member states in particular should show increasing regional disparities may be related to the fact that in those economies national growth tends to be driven by growth pole effects in the capitals and other major agglomerations. This has been quite evident in Ireland and Spain. Greece, which grew slowly over the period 1980-1996 and experienced divergence from the EU at the national level, displayed low interregional disparities. From 1996 onwards, economic growth in Greece accelerated and convergence to the EU level took off, but regional differences began to increase.[39] In rapidly growing and converging Ireland even those regions whose distance from the Irish average increased, managed to reduce substantially their distance from the average EU level, only at a somewhat slower pace than the most dynamic regions. The same applied to Spain, only to a more modest extent.[40]

Contributions to a conference on European integration organized by the World Bank, regional policy and economic growth addressed the problem of efficiency in detail.[41] Widely diverging proposals were made concerning the ways of increasing the efficiency of Structural Policies. At one extreme, the view was held that the most efficient structural policies were those which did not exist. In Boldrin and Canova's sharp wording, 'This is, we believe, the best choice of policy because current regional policies are ineffective, based on incorrect or at least unsubstantiated economic theory, badly designed, poorly carried out, and a source of wrong incentives and, in some cases, corruption'.[42]

A. Steinherr arrives implicitly at the same conclusion, as he is convinced that in a functioning market economy financing for good projects is always readily available.[43]

Referring to insights from the new economic geography, Martin finds that a trade-off may exist between spatial equity and spatial efficiency as increasing returns that explain spatial agglomeration are at the roots of economic gains. Policies that aim to help the catching--up process in poor regions by reducing trade costs among poor and rich regions may induce economic activities to leave the poor regions. The long-term supply effect may be detrimental to efficiency.[44]

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[39] Garnier (2003a), p. 103.

[40] Garnier (2003b), p. 252.

[41] Funck and Pizzati (2003).

[42] Boldrin and Canova (2003), p. 80.

[43] Steinherr (2003), p. 108.

[44] Martin (2003), p. 30.

Table 1.6

Disparities in GDP per head in PPS, by region within member states and candidate countries, 1989-2001

(standard deviation of index EU15=100)

														Change in disparities (if more than 1 percentage point)		**Difference between the first and the last year of the period** (negative figures indicate growing, positive ones decreasing disparities)	
Member state	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**1989-1994**	**1995-2001**	**1989-1994**	**1995-2001**
Austria	27.0	27.5	28.6	28.7	30.3	28.1	24.9	24.6	23.3	22.5	22.5	22.8	21.7	^	v	-1.1	3.2
Belgium	24.7	25.1	25.1	26.0	27.1	25.9	39.1	39.8	39.2	39.4	39.8	39.1	39.5	^	o	-1.2	-0.4
Germany			38.6	35.8	32.4	31.3	25.6	25.0	24.6	24.9	24.6	24.9	24.4	v	v		1.2
- exc. New Länder	*21.0*	*21.8*	*22.7*	*23.0*	*22.8*	*23.4*								^	n.a.	-2.4	
Finland	17.7	17.9	17.7	15.4	17.0	17.1	17.6	19.5	19.5	22.6	24.7	23.0	24.2	o	^	0.6	-6.6
France	28.6	28.9	29.9	28.9	29.9	30.8	16.3	16.5	16.5	16.2	16.4	16.8	16.8	^	o	-2.2	-0.5
Greece	6.5	6.3	6.1	6.6	7.6	7.8	10.4	10.9	10.6	10.1	9.7	10.2	10.9	^	o	-1.3	-0.5
Ireland							14.6	14.6	17.6	19.0	20.5	21.0	20.1	n.a.	^		-5.5
Italy	25.8	24.8	24.7	24.9	24.7	25.5	27.5	27.7	26.1	26.6	25.3	25.5	24.7	o	v	0.3	2.8
Netherlands	10.6	10.6	11.8	11.3	11.5	10.8	15.5	17.9	17.6	17.3	17.3	17.9	18.9	o	^	-0.2	-3.4
Portugal	17.7	13.5	15.0	13.6	14.3	13.8	14.5	14.3	15.4	16.3	16.6	16.7	16.5	v	^	3.9	-2.0
Spain	14.9	14.9	16.0	15.9	15.2	15.9	15.7	15.8	16.3	16.5	17.1	17.1	17.2	^	^	-1.0	-1.5
Sweden	10.9	10.8	12.0	10.9	12.8	11.0	13.1	14.1	15.3	15.9	17.2	18.1	16.9	o	^	-0.1	-3.7
United Kingdom	20.7	20.2	19.2	19.6	20.6	18.3	25.9	26.8	28.6	29.4	29.8	31.8	32.7	v	^	2.4	-6.8
Candidate countries																	
Bulgaria							5.2	4.6	4.0	3.7	4.7	3.9	5.2	n.a.	o	n.a.	0.0
Czech Republic							20.0	19.6	21.3	23.4	24.8	24.1	26.3	n.a.	^	n.a.	-6.3
Hungary							10.5	11.4	12.4	12.9	14.2	15.1	15.8	n.a.	^	n.a.	-5.3
Poland							5.1	5.8	6.1	6.9	7.5	7.6	8.4	n.a.	^	n.a.	-3.3
Romania							4.3	5.0	4.7	5.4	5.9	9.3	10.2	n.a.	^	n.a.	-5.9
Slovakia							19.7	20.6	22.9	22.3	25.1	26.0	28.1	n.a.	^	n.a.	-8.4

Key to Table: ^ = disparities increased; o = disparities remained unchanged (within +/- 1 percentage points); v = disparities decreased (first year of the period compared to last year of the period).

Note: Up until 1994: GDP (ESA79 figures) for NUTS2 regions (v.95); from 1995: GDP (ESA95 figures) for NUTS2 regions (v.98), France without Guadeloupe, Martinique, Guyane and Réunion, Spain without Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla, NUTS2 regions.

Source: 1989-1994: First progress report on economic and social cohesion, European Commission (2002), p. A-20. 1995-2001: calculations by Roman Römisch (wiiw) based on New Cronos data. Own calculations.

Assuming that structural policies will prevail, suggestions have been made for increasing their efficiency. Martin proposes the application of simple rules of public economics: identifying the market failures that legitimate public intervention, pinpointing objectives (i.e. the inequities to be reduced) and recognizing possible trade-offs between those objectives.[45] Boldrin and Canova made a similar proposal (should, contrary to their expectations, Structural Policies continue) insisting strictly on the 'public good' nature of the projects to be financed. Funds provided should be concentrated on productive infrastructure: transport, communications, power and water distribution, and education.[46]

Garnier points out that any suggestions to concentrate structural aid on the poorest regions may prove counterproductive to efficiency. Efficiency would require focusing public investment on the regions with the greatest potential rather than on the most backward regions. She proposes striking an appropriate balance between equity and efficiency; the best way of doing that would be to adopt in the catching-up countries an approach and strategy for economic development at the national level. 'Any extreme policy recommendation, such as depriving the relatively less poor regions of poor countries of EU support, can be misleading, as it may not improve economic development and convergence very much.' [47]

At the initiative of the former President of the European Commission, Romano Prodi, a high-level study group led by André Sapir elaborated a detailed reform programme for the EU.[48] One section of that report is devoted to problems of convergence, and the authors put forward recommendations in the field of redistribution across member states designed to enhance convergence.

'There is a solid argument for the new EU convergence policy to focus on countries, rather than on regions, using national GDP per capita (PPS) as an eligibility criterion. However, individual countries may decide to delegate implementation and monitoring of this policy to their regions. It is obviously possible that, during the catching-up process, increasing regional disparities within the poorer countries may also emerge. However, this phenomenon may be mitigated by national growth and could be eased by national rather than EU policies (such as social transfer schemes, labour market and wage policy, etc). These national policies fall into the domain of the Member States but, to the extent that they concern the Common Market, they must be compatible with EU rules. In particular, regional policies involving subsidies to private or public companies that violate the rules against state aid would be inadmissible.

[45] Martin (2003), p. 30.

[46] Boldrin and Canova (2003), p. 84.

[47] Garnier (2003a), p. 103.

[48] Sapir (2003).

Member State autonomy over regional policies should in no way provide a base for renationalizing state aid policy. More generally, policies designed for mitigating regional disparities within Member States must not violate EU competition rules.

In addition to focusing EU convergence policy on countries, there is also a need for greater focus in the purposes of EU convergence policy. This policy should aim at reaching two purposes deeply related to the ultimate aim of fostering growth in a cohesive enlarged EU: one purpose should be institution-building, that is to help low-income countries to have a good and stable administrative capacity; and the other should be sustaining high investment rates in human and physical capital. ....Priority should be given to improving the administrative capacity of Member States. Part of the EU convergence fund should be earmarked for this use and cannot be used otherwise. Receiving EU money for any other purpose could be made partly conditional on verified progress in improving administrative capacity. Each Member State should be left free to decide how to allocate across different national projects the part of the EU convergence fund aimed at sustaining high investment rates.'[49]

A set of reforms enhancing efficiency has been suggested by Christian Weise.[50] He proposes preserving the positive elements of the current procedure (like the programming approach and the involvement of the regional administrative level). He is of the opinion that minor changes to the current support policy system might help to bring about a more efficient policy without extensive reform. These could include a higher degree of national co-financing, perhaps depending on national GDP per capita. Support should come in the form of loans instead of grants. Improvements might also be possible in the area of evaluations, control mechanisms, and sanctions in the case of misused transfers.

Weise puts forward three more radical reform proposals: 'First, support should be concentrated on poor member states instead of on poor regions. This would be compatible with the principle of subsidiarity, it would rest the policy on a more reliable database, and it would be much easier to implement and to control. In addition, growth poles in a poor member state would be eligible for support. ... This proposal does not amount to a re-nationalization of support policies, as is often claimed. The EU would still be active in poorer member states, and its competition control would still monitor national support policies in richer countries. ... Second, we should take into account that the new members are not only poor but numerous. Today, it is not very clear how the budget is allocated among member states. Negotiation tactics seem to be at least as influential as socio-economic indicators. What is needed are clear and binding rules for allocating the budget for the funds.' [51] Weise

[49] Sapir (2003), pp. 146-150.

[50] Weise (2003), pp. 237-238.

[51] Weise (2003), p. 238.

recommends setting a threshold in terms of the GDP per capita in percent of the EU average below which a member state is eligible for Structural Policy support. Support for a member state should increase proportionally, the lower its national GDP; however, a cap on total structural spending in a member state expressed as a percentage of its GDP would also be fixed. His third proposal is to strengthen conditionality for transfers from the Structural Funds in order to orient national economic policy towards achieving growth.[52]

2 Earlier scenarios for the post-2006 EU budget

In this chapter, the main features of scenarios for the EU budget after 2006 elaborated by various experts and expert teams will be reviewed. The common denominator of these scenarios is that they were all elaborated in the period between early 2002 and July 2003, i.e. when some, but not all features of the forthcoming EU enlargement were outlined and the European Commission's first proposal for the 2007-2013 financial perspective had yet to be published. It was finally issued in February 2004. At the end of this chapter this proposal will be discussed in detail.

The Weise scenarios

Christian Weise, then researcher of the DIW in Berlin, and his team elaborated four scenarios.[53] The first scenario, called *Status Quo* was based on the assumption that there would be no reforms at all in the field of agriculture; new member states would receive direct payments just like the old member states. Today we know that the assumption was wrong; the final outcome of the last round of accession negotiations was an agreement allowing the phasing-in of direct payments in the new member states. The other assumption was that in Structural Policies, the rules governing allocations rules would remain as they are today and old EU beneficiaries would lose most of the support they had enjoyed up to 2006.

In the second scenario, labelled *Moderate Reform*, the team's assumptions were that in agriculture direct payments would remain, but half of the costs would have to be financed by the member states, i.e. agricultural policies would be partially re-nationalized. In the field of structural operations, the GDP proportional 4% cap would be maintained, with the focus on Objective 1 expenditures. Related expenditures would be raised from the current two thirds to 90% of the total. Parallel to that the qualification rate for structural support would be raised to 80% from 75% of the average EU per capita GDP in order to accommodate part of the statistical effect.

52 Weise (2003), p. 238.

53 Weise (2002), pp. 8-12.

In the scenario *Substantial Reform* direct payments to agriculture would be phased out by 2017, after being decreased by 8 percentage points per year from 2005 onwards. New member states would receive 50% of the sum they would have been entitled to as old members. They would be free to allocate the funds received according to their own specific priorities, but the competition rules would have to be observed. For the new members phasing-out would take place in 2011-2017. The changes would be radical in Structural Policy operations as well. While the 4% GDP proportional cap on transfers would be maintained, funds would be concentrated on the poorest member states. The qualification rate would rise to 90% of the EU average for the national GDP per capita (from 75% of the EU average of the regional GDP per capita). This would kick out today's main receivers Spain, Italy and Germany.

Table 2.1

EU budget according to expenditure categories in various scenarios, 2007 and 2013

in EUR million

		Agricultural Policy	Structural Policy		Total	in % of GDP
			Total	of which: new members		
2007						
EU-15	Status Quo	42025	29615		71640	0.77
EU-25	Status Quo	51940	33366	11058	85306	0.88
	Moderate Reform	37199	28112	11058	65311	0.67
	Medium Reform	44877	28112	11058	72989	0.75
	Substantial Reform	44877	27136	11170	72013	0.74
EU-27	Status Quo	57554	31366	11793	88920	0.91
	Moderate Reform	40922	27828	11793	68750	0.70
	Medium Reform	48573	27828	11793	76401	0.78
	Substantial Reform	48573	26979	11966	75552	0.77
2013						
EU-15	Status Quo	38345	22355		60700	0.58
EU-25	Status Quo	46740	30217	18429	76957	0.70
	Moderate Reform	33553	27534	18429	61087	0.56
	Medium Reform	28951	27534	18429	56485	0.51
	Substantial Reform	28951	24095	18601	53046	0.48
EU-27	Status Quo	52044	29533	22309	81577	0.73
	Moderate Reform	36928	31579	22309	68507	0.62
	Medium Reform	31354	31579	22309	62933	0.57
	Substantial Reform	31354	27939	22581	59293	0.53

Sources: Weise (2002), Appendix Table 1.

Yet another scenario known as *Medium Reform* was elaborated. It represented a meld of the reforms for agriculture contained in the *Substantial Reform* scenario and the reforms for structural operations included in the *Moderate Reform* scenario.

Table 2.2

Net payments per capita in various scenarios, 2013

in EUR

	EU-27			
	Status quo	**Moderate Reform** [1]	**Medium Reform**	**Substantial Reform**
Luxembourg	-263	-266	-220	-204
Denmark	-75	-161	-95	-82
Netherlands	-109	-114	-82	-73
Ireland	288	81	174	182
Austria	-88	-113	-78	-68
Belgium	-122	-128	-98	-88
Germany	-157	-168	-134	-128
Italy	-113	-85	-60	-92
Finland	-66	-95	-58	-49
Sweden	-142	-163	-127	-117
UK	-139	-154	-124	-117
France	-58	-120	-76	-71
Cyprus	-68	-53	-46	-42
Spain	25	16	41	-21
Portugal	161	144	162	210
Greece	189	173	193	319
Slovenia	-11	-31	-15	186
Czech Republic	321	262	287	281
Malta	252	264	269	236
Hungary	410	321	347	350
Slovak Republic	247	196	215	217
Poland	306	250	270	272
Estonia	307	252	282	284
Lithuania	345	215	267	269
Latvia	311	210	251	253
Bulgaria	261	199	215	216
Romania	303	151	193	194

Notes: 1) includes expenditure on the national co-financing of direct payments supporting agricultural incomes.

Sources: Weise (2002), Appendix Table 2.

The Quaisser–Hall scenarios

Wolfgang Quaisser and John Hall published their scenarios for the future EU budget in February 2002.[54] Their main proposition is that Structural Policies should concentrate on the provision of EU-wide public goods. Regional policy should be delegated to individual member state competencies.[55]

The authors put forward two radical reform scenarios.[56] The first, labelled *New Financial System plus Agriculture,* operates on the assumption that in 2007 the overall amount of Structural Policy transfers would be set at 0.35% of the EU GDP: the ratio earmarked for 2004, the year of enlargement. The funds for Structural Policy operations would remain at the 2007 level up to 2013 in absolute terms. Allocation of transfers across member states would be radically reformed and made transparent. Funds were to be distributed among member states reciprocally, based on a ranking of the member states by per capita GDP in PPS in each financial year. Changes in the ranking would bring about subsequent rearrangement in the distribution of these funds. A special distribution factor (DF) would be calculated to represent the differences between the EU-average per capita GDP and that of individual member states. Thus, for Poland, whose per capita GDP is 49% lower than the EU-average, the DF would be 2.04, while for Germany with its 28% above the EU-average the DF would be 0.78. Applying the DF, the total sum earmarked for structural policies could be allocated. The desired slope of the redistribution curve could be adjusted. In order to allocate more funds to the new member states, the square of the DF could be used. Notwithstanding, the 4% GDP proportional ceiling for Structural Policy spending would be preserved. In the agriculture section of this scenario, the authors adopt the proposals for the agriculture set down in the radical reform scenario drawn up by Weise et al. (see above).

Table 2.3

Projected net budgetary positions of selected EU Member States and Poland

(in percentage of GNP or GDP: 2007 and 2013)

	Year	France	Germany	UK	Spain	Poland
New Financial System,	**2007**	-0.08	-0.36	-0.34	0.25	3.06
plus Agriculture	**2013**	-0.10	-0.26	-0.25	0.19	2.02
New Financial System,	**2007**	-0.27	-0.32	-0.25	0.18	3.66
Redistribution	**2013**	-0.18	-0.22	-0.17	0.13	2.31

Source: Quaisser and Hall (2002), p. 59.

54 Quaisser and Hall (2002).

55 Quaisser and Hall (2002), p. 66.

56 Quaisser and Hall (2002), pp. 57-59.

In an enlarged version of the above scenario, which the authors labelled *New Financial System, Redistribution*, reforms for the Structural Policy outlined in the above scenario apply; however, they are supplemented by the same rules that govern the allocation of the agricultural transfers. The authors argue that all efforts to achieve greater transparency and clear allocation rules may be lost if the redistribution scheme currently applied in the field of agriculture were to prevail. As a consequence, the overall net financial positions would be neither fair nor transparent.

Quaisser and Hall are convinced that both the CAP and Structural Policies in their present form should be gradually abolished. They should be reduced to regular supervision of national programmes, as member state governments should be allowed to set their own priorities in regional and agricultural policies. That notwithstanding, they should conform to the EU rules and legislation, especially in the field of competition.

The Karlsson scenarios

Bengt O. Karlsson elaborated three scenarios for the future budget of the enlarged EU.[57]

In his first scenario, which he called *Least Resistance,* enlargement (12 new member states by 2007) would take place without any policy reforms. The main assumptions are that the CAP would remain unreformed and the new member states would be phased into the old system by 2013. (Bulgaria and Romania up to only 70% by 2013). The 4% GDP proportional ceiling for structural support would be maintained, thus certain room would be left for the continued financing of old member states. Structural support for the old EU-15 would be frozen at the 2006 level, as would the expenditures for internal policy.

The main reform proposal for agriculture is an annual 3.14% reduction of direct payments to farmers from 2007 onwards. The other main reform should take place in Structural Policies. Here Karlsson proposes the application of the same rules for each member state, with the consequence that the EU-15 would lose most of the support the group still enjoyed up to 2006. The 4% GDP proportional ceiling would put a brake on the escalation of spending in the new member states.

The calculations based on the different scenarios clearly indicate that the ceiling for own resources (here 1.27% of the GNP/GNI) would not be attained in any of the scenarios in any year in 2007-2013. It turns out that the rate of growth matters; low growth alls for substantially higher contributions to the EU budget by old and new members alike.[58]

[57] Karlsson (2002).

[58] Karlsson (2002), p. 68.

As for the net financial position of member states in the different scenarios, it turns out that agricultural reform has marginal effects on both large and small net payers and the old cohesion countries. The net position of the new member states would marginally deteriorate compared to the least resistance scenario. Structural reforms would slightly improve the position of the major net payer member states, substantially improve that of the other net payer countries, seriously deteriorate that of the old cohesion countries and slightly improve that of the new member states.

Table 2.4

Net financial positions in 2013 as a share of GNP/GDP in three different scenarios

percentage shares of GNP/GDP

	Least Resistance scenario	**Digressivity in direct support**	**Same rules for all in structural operations**
Berlin net payers (D, NL, A, SE)	-0.56	-0.54	-0.48
Net payers without rebate (DK, F, I, FIN)	-0.38	-0.38	-0.29
Sum	*-0.47*	*-0.46*	*-0.38*
UK	-0.26	-0.25	-0.22
All net payers	*-0.43*	*-0.42*	*-0.35*
Cohesion countries (EL, IRL, E, P)	1.09	1.04	0.38
EU administrative countries (B, L)	0.84	0.87	0.99
EU-15 total	***-0.22***	***-0.21***	***-0.23***
Baltic (EE, LT, LV)	5.30	5.14	5.44
Visegrad (PL, HU, CZ, SK)	3.78	3.67	3.92
Slovenia	0.15	0.15	0.29
Island states (CY, MT)	0.15	0.17	0.29
BG + RO	6.58	6.45	6.72
New MS total	***3.89***	***3.79***	***4.03***
EU enlarged	***0.00***	***0.00***	***0.00***

Source: Karlsson (2002), p. 80.

It is important to see that the net position of the new member states is around + 4% of the GDP in all scenarios, with marginal deviations across the scenarios. The message seems to be clear: in the medium term, reform is in the interest of the net payer old member states. Old cohesion countries are discouraged, while new member states are indifferent to change, certainly only from the narrow fiscal point of view.

Apart from the scenarios, Karlsson proposes the introduction of a general correction mechanism to address the problem of excessively negative net financial positions.[59]

[59] Karlsson (2002), pp. 96-99.

The Sapir scenario

In 2003 a high-level study group headed by André Sapir elaborated a detailed reform agenda for the EU at the initiative of the President of the European Commission.[60] The sub-set of the proposals with budgetary relevance can be interpreted as one specific scenario for the financial perspective 2007-2013.

The group recommends a radical restructuring of the EU budget to support the growth agenda in line with the Lisbon objectives.[61] The overall size of the EU budget in terms of the EU GNI would remain at its current level: i.e. about 1%. Agricultural expenditures would be reduced sharply and decentralized to member states (re-nationalization).

Table 2.5

Expenditures in the financial period 2007- 2011

Expenditure funds	% of EU GDP
Growth	**0.45**
R&D	0.25
Education & Training	0.075
Infrastructure	0.125
Convergence	**0.35**
new members	0.2
old members	0.1
phasing out for macro regions	0.05
Restructuring	**0.2**
displaced workers	0.05
agriculture	0.05
phasing out of agricultural expenditure	0.1
Total	**1.00**

Source: Sapir (2003), p. 168.

It is proposed that expenditures be re-organized into three funds:

- Fund to promote growth through expenditures on R&D, education & training, and cross border infrastructure;
- Convergence fund to help low income countries catch up;
- Fund to support economic restructuring

It is proposed that resources for growth be allocated to recipients on a competitive basis. Transfers from Convergence should target member states (not regions) that qualify for such transfers on the basis of criteria linked to per capita income levels. Funds for

[60] Sapir (2003).

[61] Sapir (2003), pp. 166-168.

restructuring should be made available to individual citizens anywhere in the EU, based on their economic circumstances.

On the revenue side of the budget, national treasury contributions should be eliminated and replaced by a EU-level tax. The group proposes introducing qualified majority decisions on multi-annual budgetary guidelines.

The budgetary impact of the proposed reforms are summarized in Table 2.5.

The IBO scenarios

In a paper prepared by an interdepartmental working group in the Netherlands, four scenarios were elaborated for the future of Structural Policy in the EU.[62] (No scenarios were elaborated for the future of agricultural expenditures.)

- Scenario 1. *Concentration on Objective 1*

Basic principles of the current system would remain intact. Only the relative weighting of components of the Structural Policy would change. This is actually a non-reform scenario.

- Scenario 2. *Selective Re-nationalization of the Structural Policy*

Structural policy would be partially discontinued. The core idea is to re-nationalize Structural Policy in the wealthy member states, i.e. net payer member states. One option for the implementation would be to 'reduce the balance sheet' (cancelling receipts against contributions while the net position remains unchanged). EU Structural Policy would be applied only in the beneficiary member states.

- Scenario 3. *Cohesion Approach*

Structural support would be available only for member states with per capita GDP below the EU average. The amount of support would depend on the prosperity of the recipient member states. This variant is based on the current Cohesion Fund approach and assumes the discontinuation of the 'objectives' approach in the allocation of support.

- Scenario 4. *Mixed Approach*

Here the qualification criteria for eligibility of structural support are less restrictive than in the *Cohesion Approach* scenario. Member states below a certain threshold (e.g. below 90% of per capita GDP of the EU average) would be eligible for support at the national level. Member states above that threshold but below e.g. of 115% of the EU average could

[62] IBO (2002), pp. 62-65.

draw support only for regions that are far below the EU-average (e.g. below 75%). Member states with per capita GDP above a certain threshold would not be eligible for any form of structural support.

The Dutch interdepartmental working group came to the conclusion that the *Cohesion Approach* scenario would meet most prerequisites for a successful reform of the EU budget. This and the *Mixed Approach* scenario would yield a better result for the vast majority of the member states, including the new member states in terms of their net financial positions compared to a policy maintaining the current support to all EU-15 member states with correspondingly high total expenditure. Only the old cohesion countries' net position would deteriorate.

Further proposals for reform

There are two papers where the authors, after detailed analysis and critical assessment of the current Structural Policy of the EU, put forward comprehensive proposals for reform with budgetary relevance. The papers deserve our attention and are interpreted here as potential fragments of full scale scenarios.

Christiane Krieger-Boden, a researcher at the Kiel Institute for World Economics, recommends decentralizing regional policy to national competencies.[63] Policy measures at the EU level should be restricted to cases with: (a) very explicit Union-wide externalities; (b) low heterogeneity of preferences; (c) with a clear assignment of accountability in order to avoid financial illusions; and (d) scope left for locational competition. An EU regional policy with allocative objectives might be justified as a means of offsetting adverse integration effects, insofar as they have an inhibitory dimension EU-wide. By contrast, the self-same policy aiming at redistributive objectives is more difficult to justify. Krieger-Boden is on the opinion that equalizing incomes is more likely to be oriented towards national or even regional yardsticks than towards a Union-wide objective.[64]

Daniel Tarschys recommends re-nationalizing regional policy in the EU.[65] Parallel to that he proposes a more flexible adaptation of regional policies to the particular needs of each member state. Only those programmes whose trans-national benefits are clear should be kept for EU financing. EU budget expenditures should be re-allocated to other targets than those at present – to common foreign and security policy and the new neighbourhood instrument. He recommends downgrading or even abandoning convergence as a policy

[63] Krieger-Boden (2002).

[64] Krieger-Boden (2002), p. 22.

[65] Tarschys (2003), pp. 88-91.

objective and making cohesion the principal purpose of policy interventions so as to create EU-wide value-added.

The European Commission's proposal of February 2004

The European Commission's proposal for the next financial perspective 2007-2013 published on 10 February 2004 can also be interpreted as a medium-term scenario for the EU budget. It can be analysed both in the context of the current financial perspective (2000-2006) and in that of the various reform scenarios reviewed above. In both contexts the proposal can be termed 'a moderate reform scenario'.

The scenario makes the following main assumptions concerning economic conditions over the seven-year period. Average economic growth (GNI) in the old EU members for the period would amount to 2.2% each year in real terms. (Supplementary calculations were made for growth rates ranging from 1.5% to 3.5% annually.) The respective indicator for the ten new member states is assumed to be 4.1%, that for Bulgaria and Romania 5.6%.[66] Annual inflation is assumed to run at 2%.

Changes proposed on the expenditure side

Concerning the extent of the budget (expenditures), commitment appropriations would increase in real terms by 31.3% by 2013 compared to 2006, the final year of the current financial framework. Payment appropriations (envisaged payments in any given year from multiannual commitments) would increase at a slower pace: by only 24.7%. More important, however, is the extent of the budget measured as percentage of the EU GNI. Payment appropriations would increase from 1.08% of EU GNI planned in the current financial perspective on average for 2000-2006 to 1.14% on average for 2007-2013. In reality, expenditures have been regularly lower than those envisaged in the current financial perspective (around 1% of the GNI), thus when comparing the current and the forthcoming financial perspectives, the leap in expenditures would be greater than 0.06 percentage points, certainly if the reasons for the current underutilization were to be eliminated and envisaged spending were equal to real spending.

Given the ceiling set for expenditures after the European Council resolution in October 2002, agricultural expenditures would lose their relative weight in total expenditures: dropping from one third (32.6%) in 2007 to slightly more than a quarter (26.7%) by 2013. There would be no breakthrough in the reform of spending patterns. In the period, on average close to 80% of agricultural expenditures would relate to direct payments to

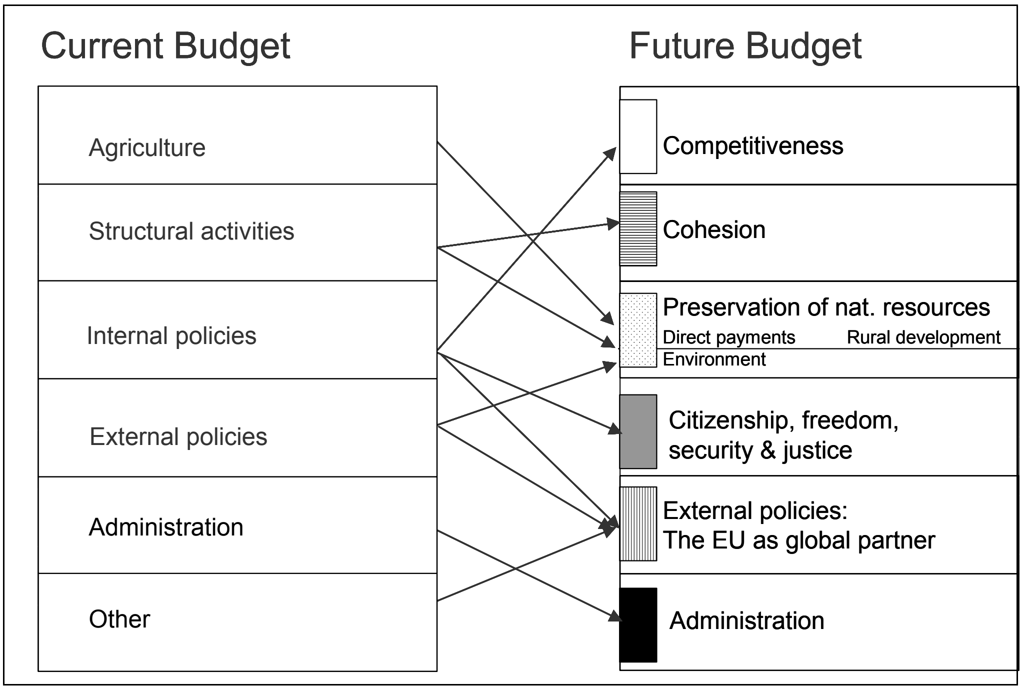
66 The numbers are based on the Commission's Autumn 2003 forecast for 2004-2005. European Commission (2004e), p. 42.

farmers and market intervention and only one fifth to rural development, although the latter's share would increase over 2007-2013.[67]

Structural action expenditures (in the new framework they are shown as sub-heading 1b Cohesion for growth and employment under heading 1 Sustainable growth) would provide somewhat more than one third of all expenditures in 2007 and somewhat less than one third in 2013, i.e. the relative significance of this item would diminish marginally over the seven-year period. Over the period, on average, 0.41% of the EU GNI would fall on this item, including rural development and fisheries instrument the respective share is 0.46%.[68] As for the recipients of support, no change is envisaged. Structural Policy would continue to mean primarily regional policy. Reference eligibility criteria would remain unchanged: development level below 75% of EU per capita average (PPS) at the regional level (Structural Funds transfers) and below 90% of EU per capita average (PPS) at the national level (Cohesion Fund transfers).

Figure 2

Planned reallocation of expenditures in the current and the future budget of the EU



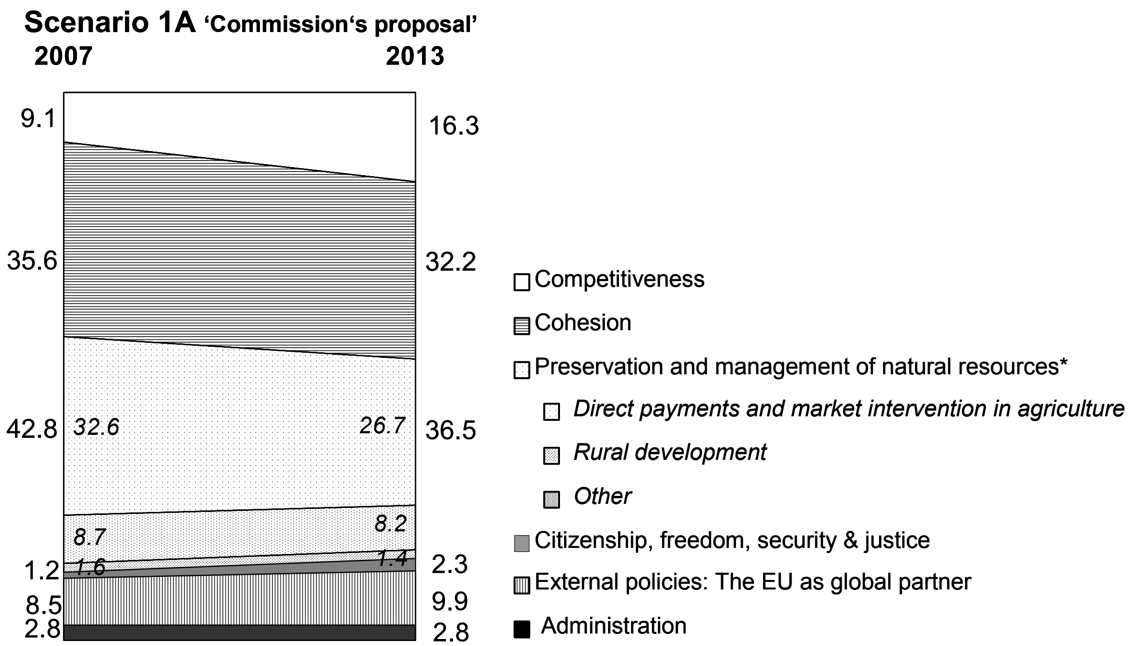
Source: Council of the European Union (2004a), pp. 44-46.

[67] European Commission (2004a), p. 46.

[68] Council of the European Union (2004a), p. 17.

Figure 3

The composition of expenditures of the European Union's budget in 2007 and 2013 in various scenarios (in %)



**Note:* The internal distribution of 'Preservation, etc.' is indicated by the figures in italics.

Source: Council of the European Union (2004a), ANNEX III.

The only major new feature would be the upgrading of programmes accommodated under the heading Internal policies in the current framework. Labelled sub–heading 1a Competitiveness for growth and employment under heading 1 Sustainable growth, this is the only item to gain in relative importance within the budget. In the final year of the current financial framework (2006) this package of programmes will absorb 7.3% of total expenditures; by 2013 it will already be absorbing 16.3%. This is the segment where the much--urged programmes EU-wide value-added, which relate primarily to the fulfilment of the Lisbon Strategy are to be implemented. Half of the related expenditures would go to R&D, close to 20% to Trans European Networks (TENs) in infrastructure, 10% to education and some 15% to competitiveness, social policy and administrative expenditures. 1 billion euro would be allocated to a newly established Growth Adjustment Fund, the function of which will be to provide more flexibility in re-allocating resources across spending categories, when needed.[69] This Fund would also tap part of the undrawn resources that have accumulated in the budget owing to the N+2 rule for expenditures under the two Structural Funds instruments (ERDF and ESF). The additional resources could be utilized to top up the most efficient programmes running either under the heading of Competitiveness or the sub-heading Cohesion.

69 Council of the European Union (2004a), p. 15.

The problem of how to address growing income disparity in the enlarged EU would be solved via a compromise. The share of structural action expenditures falling on new member states would increase as the phasing-in process of the 10 new members that acceded in 2004 will have been completed by 2007, while Bulgaria and Romania will most probably have become additional recipients of structural action transfers as new members from 2007 onwards. This means that the Structural Policy would become more focused on less developed member states than in the current framework. Nevertheless, those regions that are recipients in the current framework would not forgo all support in 2007-2013. Both those regions affected by the statistical effect (those surpassing 75% of the EU average per capita GDP level only because of the lower average in the enlarged EU) and those regions no longer eligible for support because of their economic growth would continue to receive EU budgetary transfers. Nevertheless, the intensity of transfers for the latter two groups of regions would be lower than in the current period and would have a digressive time pattern.

Around 78% of the expenditures for structural action would fall on the Convergence objective regions and national economies with levels of development 75% and 90% below the EU-average, respectively. These correspond most of the regions in and all national economies of the new members, plus an additional 18 regions with a population of 19,1 million in old member states (statistical effect regions). Portugal and Greece will also remain eligible for Cohesion Fund transfers, both countries with less than 90% of the average per capita GNI in the EU. Those regions in old EU member states which have to cope with specific structural problems and receive assistance under the current financial framework, although they are above the post-enlargement eligibility threshold of 75% for reasons other than the statistical effect, will absorb 18% of the EU budgetary resources for structural actions (12 so-called 'phasing-in regions' with 17 million inhabitants). These expenditures would be accommodated under the objective Regional competitiveness and employment (the remaining 4% would fall under European territorial co-operation).[70]

The 4% cap on structural action transfers to any single member state would be maintained; expenditures for rural development and the fishery instrument would be included in the reference base.

It would be more a symbolic gesture, were agriculture not to have a separate heading of its own (in the current financial perspective it is heading 1). It is proposed to merge with part of the environmental expenditures under heading 2 Preservation and management of natural resources whose very title is all the more remarkable for its complete omission of the term 'agriculture'.

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[70] European Commission (2004f).

Administrative costs would not be bunched under one discrete heading as they are today; they would be spread across individual headings or in those instances where allocation to other headings or institutions is impossible) they would be accommodated under a new, much smaller heading Administration.

Finally, part of the programmes currently running under three headings (Internal policies, External actions and Reserves) would be re-shuffled and allocated to two new proposed headings (Citizenship, freedom, security and justice, and the EU as a global partner)

The financing side of the EU budget

On the financing side of the budget, the Commission's proposal recommends a relatively major and visible tax resource payable by EU citizens and /or economic operators which could partly replace GNI contributions. That means that the reform proposed is both cautious and partial. Three options are provided by the Commission: tax on corporate income, a genuine VAT resource and an energy tax.

The other reform proposal is the introduction of a general correction mechanism to correct net contributions in excess of a certain pre-defined threshold of adequate 'financial solidarity'.[71] In summer 2004, the Commission published an additional paper describing the proposed correction mechanism in details.[72] The mechanism should be triggered beyond a fixed threshold, expressed as a percentage of each member state's GNI. The threshold would represent a sort of basic reasonable net contribution by a member state to the common budget. Net positions exceeding this threshold would be eligible for correction in the form of a partial refund; a percentage of the amount in excess of the reasonable net contribution would be returned to the member state concerned.

3 The EU budget at the crossroads of reform

Guiding principles for reforms

The EU budget has long been the target of criticism. Politicians and experts alike have made a number of recommendations about what and how to change in the redistribution across EU member states. The proposals may differ widely in terms of content, direction of change and modalities of implementation. However, they all claim to comply with three guiding principles: reforms must increase efficiency; they must maintain or improve fairness; and last but not least, they must be feasible. These guiding principles are to be

[71] European Commission (2004a), pp. 38-39.

[72] European Commission (2004c).

seen as operational categories, since their exact meaning in the context of the EU budget is nowhere defined. Multiple interpretations are thus the order of the day.

Efficiency

Proposed changes in the redistribution across member states must ensure that the same targets are attained for less money, more targets are achieved for the same money or the targets are re--defined and the mode of implementation is changed so that ultimately the impact is better in one way or another than in the pre-reform era. The difficulties arise as soon as something needs to be changed (individual targets, composition of several targets in a package, entity of recipient, modalities of implementation or distribution of competencies) where agreement cannot be reached on the assessment of current efficiency nor on the desired direction of change. Apart from the genuine difficulty of measuring or interpreting quantitative findings, consensus is confounded by the divergent interests of individual member states, groups of member states or pressure groups as to the nature or direction of change. This embarrassing situation, however, does not arise with each reform issue being discussed. On some issues opinions are less strident and changes are more likely to be attained, whereas on other issues, where interests are at odds, the chances for reform are slim.

Fairness

Though in need of clear definition, fairness as perceived by member states is an operational category of utmost importance as decisions pertaining to revenues in the EU budget must be unanimous and those on expenditures side require a qualified majority (but in practice, this also amounts to unanimity).[73] Each member state's perception of fairness is indispensable to any reform. This need not apply to each individual reform step. However, any proposed reforms that a member state or group of member states perceives to be unfair must be offset by some form of compensation for that member state or group of member states concerned, so that at a higher level the overall fairness as viewed by the parties involved improves or at least remains unchanged. Member states are represented by their governments but individual reform steps must be unequivocally presented as being both fair and beneficial even in the relatively short term as EU budgetary issues are prone to becoming the subject of domestic debate in various legislative bodies. Member state governments must be able to show results within an election cycle. Perception of fairness is especially difficult if the proposed reforms have opposite effects on different pressure groups within one and the same country. The outcome of these conflicts of interest is hard to predict.

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[73] In critical situations certain member states threatened to leave the EU so as to secure their interests in decisions on the expenditure side of the budget (France, the UK and Spain). Blankart and Kirchner (2003), p. 18.

Feasibility

The highly complicated decision-making process in the EU on budgetary matters also provides for a reconciliation procedure among the 25 member states, the main instances being the Council of Ministers and the European Parliament. The mastermind behind the process is the European Commission. Feasible reforms are those which are based on a common denominator accepted by the parties concerned. The greater the involvement of parties with diverging interests or different perceptions of fairness and/or efficiency, the less feasible a proposed reform will be. Under these conditions, the adoption of a path of least resistance is the most likely option for reform; that, however, cannot guarantee a shift towards greater efficiency. Pressure of time and emergency situations have the positive side effect of heightening the member states' readiness to come to a consensus. In this sense, no fundamental reforms can perhaps be introduced without their being preceded by a major crisis of the EU.

Individual member states and groups of member states in the context of possible EU budget reform

The main division lines among the 25 member states run between the group of countries above the EU average per capita GNI measured at PPS (12 member states) and the group of countries below that level (13 member states). The group below the EU average is not homogeneous either: in 2004, 4 member states registered between 76% and 100% of the EU average (Cyprus, Greece, Spain and Slovenia) 5 member states between 51% and 75% (the Czech Republic, Hungary, Malta, Portugal and Slovakia) and finally 4 member states with a per capita GNI 50% or less of the EU average (Lithuania, Poland Estonia and Latvia). In 2007 this group will be joined by Bulgaria and Romania, while Poland and Lithuania, perhaps Estonia and Latvia, too, will shift to the group ranging between 51% to 75% of the EU average.[74]

The group of 13 member states with a per capita GNI level below the EU average are also divided in terms of the date of their accession to the EU. 'Old' cohesion countries, Spain, Portugal and Greece, have long been beneficiaries of substantial transfers. As incumbents, they would like to preserve their net beneficiary status for as long as possible. They argue that were the transfers to stop suddenly, it would trigger a sort of 'cold turkey' symptom in the regions concerned. That should be avoided via a gradual elimination of transfers.

'New' cohesion countries are eager to receive substantial additional financial resources from the EU budget so as to accelerate their catching up with the more developed EU members. With regard to the 4% of GDP ceiling for Structural Policy expenditures in any

[74] Own estimation. See Appendix for details.

member state and the lengthy ‘phasing in’ of direct payments for farmers, the ‘new’ cohesion countries must reckon with less per capita support in the future than that to which the ‘old’ cohesion countries were entitled over the past two decades.

There is a line of division between net payer countries, more exactly between traditionally large net-payer member states on the one hand (primarily, Germany and the Netherlands, but also Austria and Sweden) and those member states which are close to a neutral net financial position on the other (for example Finland or Italy).

In the group of ‘old’ rich member states, a further line of division runs between countries with large regions where the regional per capita GDP is substantially below the EU average (new *Länder* in Germany, the *Mezzogiorno* in Italy) and countries where there are either no underdeveloped regions or if there are such regions, their relative significance is much smaller than in Italy or Germany.

Certainly, further groups of member states can be set up along the lines of the various issues, but the above divisions are the most important and exercise the greatest influence on the outcome of debates on EU budget reform. Individual member states may have quite specific interests, with or without allies among the other member states on a particular issue. In an extreme case, frustration of such member state-specific interests can block work on the new budget as decisions on the EU budget must be unanimous.

Alternative approaches to budgetary reforms

Revenue side of the budget

Evolutionary reform – revolutionary reform

As for the development of the own resources system in the EU, the adjective ‘evolutionary’ is clearly apposite. Parallel to the increasing significance of the EU budget and its growing relative weight, new components have been introduced from time to time, whereas no previously introduced components have been eliminated. In this sense, the Commission’s proposal for a European tax is without doubt revolutionary. In the light of the member states’ initial reactions to the Commission’s proposal, the proposed changes will most probably postponed to beyond 2013.

In current EU practice, the own resources system comprises revenues coming from different channels. TOR (customs, agricultural levies, etc.) will most probably remain in any new system; as in the customs union, they cannot be allocated to individual member states. They are, however, quite insufficient to cover the expenditures from the EU budget, thus raising the question whether one or more new sources of revenues will be needed in addition to the TOR – or still more. Certainly, one additional source of revenue would make the present complicated and non-transparent own resources system more EU-citizen friendly than a new system with two or even more new sources of revenues.

European level approach – member state level approach

The present system is a mixed bag; it comprises a minor source at the European level, TOR, with a much larger share of the revenues coming from the national treasuries.

'Away from national treasuries' could be the slogan for the European-level approach proposed by the European Commission.[75] A new tax imposed on energy or personal incomes would create a direct link between the EU corporate sector and/or the EU citizens with the EU budget. National treasuries would be out of the game, hopefully with the effect of eliminating the dreaded 'juste retour' approach that member states adopt towards EU budgetary issues. This, however, is only an apparent solution since any option entailing one or more new EU-level resources would result in member state-specific and non-uniform contributions. Taking the example of energy consumption, a EU tax imposed on it may well be intrinsically different in a northern country such as Finland with its cold winters and long distances to be driven as compared to a small country with a warm climate such a Malta or Cyprus. In all probability the 'juste retour' approach would not disappear, but merely shift and the discussion about 'who pays how much' would become even more embittered and hinge on even less reliable calculations than those currently applied.

The other extreme solution would be a clear member state-level approach, a system where national treasuries pay their contributions based on some very clear and transparent rules. Admittedly, this system has no space for European feelings; hence, a move in that direction may be viewed as a retrograde step. The obvious advantage would be that the 'juste retour' approach would become manifest. The probably inevitable conflict of interest would occur but once – during the negotiations on the rules. As soon as the rules are agreed upon, the consensus achieved would obviate the need for further debate.

A reformed own resources system with a European-level approach bears the implication that individual member state interests are not expressed directly. Actually, that is the very purpose of the revenue collection technique applied. Here the basic notion is that in practice interests which are not manifest or difficult to discern do not exist. The other extreme, based on contribution from the national treasuries, has quite the opposite objective: member states are encouraged to express their interests openly; no conflict should remain hidden. The main risk being run here is that debates among member states will become a playground for domestic policy debates in individual member states. In the

[75] For a detailed description of the EU financing system see European Commission (1998).

worst case, it could lead to member states adopting very rigid positions with no prospects of compromise.

Expendíture side of the EU budget

Size of the EU budget as proposed by the Commission – size of EU budget as proposed by the net payers

How large will the next EU budget be? The Commission proposes an EU budget in the order of 1.26% of the EU GNI on average for the period 2007-2013, in terms of commitment appropriations. (The more frequently mentioned figure, 1.14% of the EU GNI refers to payments appropriations.)[76] The six most important net-payer member states[77] are not ready to contribute more than 1% of their GNI to the EU budget in terms of commitments; however, that implies that they are ready to contribute at least 1% of the GNI. We may thus take 1% as the lower end of the budgetary scale. Nonetheless, one can quite safely predict that potential net beneficiaries[78] in the period 2007-2013 will not have leverage enough to achieve a higher rate of contribution than that proposed by the Commission. Put the other way round, some potential net-payer member states now have much stronger arguments in favour of reducing their contributions to a level below the Commission's proposal, given the persistent difficulties that the French and German governments have been having as they try to lower their own general government deficits to 3% of GDP, the level required by the Stability and the Growth Pact.

Structural Policy & CAP continued – none or only one of them continued

Structural Policy and the Common Agricultural Policy (CAP) make up about three quarters of the EU budget expenditures in both the current and future financial perspective[79]. Although the protectionist system of agricultural subsidies has long been criticized, direct payments to farmers and market intervention are obligatory spending pursuant to a decision of the European Council in October 2002. Without (an unlikely) revolutionary change, this will not end or undergo a radical change before 2013.[80] Criticism of the

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76 Commitment appropriations refer to transfers committed in a given year. The actual payment of these transfers may take place in that year or in the following years. Payment commitments refer to transfers that are planned to be disbursed in a given year. These transfers were committed either in that year or in previous years. Part of the commitments will never be paid due to various reasons. In 2007-2013 payments are planned to lag behind commitments by about 10% in the period average.

77 Member states whose contribution to the EU budget regularly exceed their revenues from the EU budget. (The six major net payers are Germany, Austria, France, Netherlands, Sweden and the UK.)

78 Member states whose revenues from the EU budget regularly exceed their contributions to the EU budget.

79 According to the current financial perspective and the Commission's proposal for 2007-2013. Calculation based on data in European Commission (2004), p. 43.

80 Expenditures may be cut following a Doha round decision on elimination or rather further reduction of export subsidies. Changes in the CAP paying modalities also may have some expenditure-decreasing effect.

Structural Policies, though voiced less loudly, does exist as critics point to the limited efficiency and minimal EU-wide value-added of Structural Policy-funded projects.[81]

Termination of one or both of these policy areas would mean discontinuing redistribution across member states, as we know it today. Reforms on such a scale are extremely unlikely to occur in the next financial period, but over the years to come discussions may start on reforms entering into effect in the post-2013 era. Under exceptional circumstances, however, fundamental reforms may take place much earlier, e.g. in the wake of a major crisis, should the EU fail to reach a compromise in the conflict-charged issues of the 2007-2013 financial perspective.

'Something for everyone' – focusing on the neediest member states

In the pre-enlargement EU, all member states (except Denmark and Luxembourg) received some sort of transfers within the Structural Policy framework. The Commission's proposal for 2007-2013 hardly represents a departure from the pre-enlargement practice of 'something for everyone'. Spending programmes are earmarked for all regions below 75% of the enlarged EU average per capita GNI. On top of that, funds will be made available for regions that do not correspond to this requirement solely for statistical reasons ('phasing out' regions), as the enlarged EU average per capita GDP is lower than the respective value prior to enlargement. Furthermore, some regions are to receive support because they already exceed the 75% eligibility rate owing to their economic growth, yet they are still below the enlarged EU average ('phasing in' regions). A certain degree of digression is proposed by the Commission, consequently the closer a region's development level to the enlarged EU average is, the smaller should be the specific value of available funds.[82]

The antithesis to this approach would be a Structural Policy in which the focus is on the most needy member states as recipients. This is exactly what the six net-payer member states have been proposing; they link their demand for the 1% GNI budget to an appropriate focusing of expenditures. Some experts go even further; one proposal recommends setting the eligibility limit at a level of development equivalent to 50% or below of the EU average per capita GDP.[83] In all likelihood, by 2007 only one current member state (Latvia) or none will meet this strict criterion, as will Bulgaria and Romania if they manage to accede in that year.[84] If, parallel to this, the 4% GDP proportional ceiling for Structural Policy expenditures were to be observed, the consequence would be a radical reduction in convergence-enhancing programmes across the board. Even a less extreme

81 See Bachtler and Wishlade (2004), p. 43.

82 Council of the European Union (2004a), p. 18 and Annex IV.

83 As a second best solution, if structural policies cannot be terminated completely. Boldrin and Canova (2003), p. 83.

84 Own estimations calculated in PPS and based on New Cronos data for 2003 and forecast for 2004.

degree of focus would, however, imply a radical reduction or even full elimination of transfers to 'phasing out' and 'phasing in' regions.

Structural Policy at regional level – Structural Policy at national or trans-European level

In the current financial framework, the bulk of the Structural Policy is focused on regions. Only transfers from the Cohesion Fund are targeted at member states. In expenditures for the old EU, about 10% falls under Cohesion Fund transfers; in the case of the new member states, this rate is about 30%.

One extreme in this area is the full concentration of Structural Policy expenditures on regions. That would fit in with the concept of 'Europeanizing' budgetary revenues and expenditures. (Europe of the regions versus Europe of the member states). The other extreme is the termination of EU budgetary support for regions. Instead, expenditures would either support such items as trans-European infrastructure, telecommunication and education or fund transfers for individual member states. Efficiency considerations would justify both options.[85] In terms of the allocation of regulatory power, the two solutions diverge sharply. To all intents and purposes, Structural Policy support for individual member states would be tantamount to re-nationalizing regional policy, even if it were to ensue along strict EU guidelines. That would constitute a strengthening of the member state and a weakening of EU competences. Structural Policy spending focused on the trans-European level would strengthen EU competences, while diminishing those of member states.

Terminating national co-financing – increasing national co-financing

In the area of national co-financing, one extreme of the range of possible solutions would be to terminate all national co-financing. That would be a step towards 'Europeanization'; however, without a proportional rise in EU expenditures, the overall volume of EU supported programmes would be reduced. Without national co-financing, transfers from the EU budget would become more akin to aid like than they are at present.

The other end of the domain is the maximum extent of national co-financing in all EU financed projects. Compared to the practice today it would mean that agricultural support (market intervention and direct payments) would be partially re-nationalized as currently there is no national co-financing in this field. For the programmes which have already been nationally co-financed the changes would mean a higher proportion of national financing (with contribution from the national treasury, regional self governing bodies, private firms, NGOs). Extension of national co-financing would mean increasing number of programmes

[85] Martin (2003), Boldrin and Canova (2003).

with maximum co-financing rate and an increasing number of programmes with higher national co-financing rate than currently. This reform would implicate a more ample supply of development projects with shared (EU and national) competencies, which, compared to the prevailing practice, would diminish national competencies in selection of targets for financing without providing additional EU financial resources.

Higher national co-financing might become an important tool to achieve higher efficiency of EU co-financed projects. Higher national contribution would make project implementation for the recipient entity more expensive and would filter out in financial terms less promising projects. This reform would also mean a shift away from aid like financing to a more market complying practice.

Broad spectrum of targets – narrow spectrum of targets

The range of eligible spending targets selected for EU co-financing is demarcated by the elementary efficiency criteria related to the management of the programmes concerned. By keeping the number of major spending targets small, greater cost-efficiencies can be achieved in management, but at a price. The narrow spectrum of eligible spending targets reduces the flexibility of programmes which in turn cannot efficiently be tailored to specific needs of various groups of member states or individual member states.

A narrower range of spending targets might involve large-scale changes (such as the termination of agricultural support and/or the partial or complete elimination of regional policy) as well as changes on a lesser scale within individual major spending programmes. One 'reductionist' idea that keeps cropping up is the proposal to terminate support to firms (private and public alike). It is argued that financing that sector should be left to the commercial banking sector. An even more radical notion is to limit expenditures under the EU budget to the funding of essential infrastructure where the existence of a 'European value-added' is beyond any doubt.[86]

The same rules apply to all member states – different rules apply to different member states or groups of member states

In principle, rules governing the utilization of EU funds should be the same across all member states; they should comply with the equal treatment requirement. Even today, however, they vary somewhat according to groups of member states. Increasing efficiency would require a more diverse set of spending rules. Splitting spending programmes by heading or sub-heading could be tailored to meet the specific needs of groups of member

[86] Boldrin and Canova (2003), pp. 83-84; Martin (2003), p. 30; Steinherr (2003), p. 108. Funck, Pizzati, and Bruncko (2003), p. 10.

state groups, while the national expenditure envelopes remain unchanged. Now defined at the EU level, the modalities of utilization could be left to individual member states. If standard spending rules were to apply across the EU, expenditures would become more manageable, while member state-specific rules would ensure the more efficient utilization of funds. The more differentiated the spending rules, the greater the concern over maintaining EU-wide competition under equal conditions.

Support from the EU budget is similar to aid – support from the EU budget is similar to credit

Structural Policy expenditures bear the characteristic features of aid. They are unilateral transfers. From the recipient's point of view, they are not free of charge on account of the national co-financing requirement; however, profitability requirements in EU co-financed projects are much less rigorous than they would be in the case of market financing. A shift towards financing EU-supported projects more along the lines of credit (e.g. credits with subsidized interest payments) would increase the overall efficiency of the co-financed projects. Aid-like support would only be maintained in those cases where, given the very nature of the activities involved, a profitability requirement cannot be justified. Parallel to the shift towards a more market- compliant use of transfers, flexibility could be increased in terms of target selection and utilization modalities. Contrary to this approach, aid-like transfers currently call for rigid target selection and inflexible utilization modalities in order to guarantee a minimum of efficiency. If recipients were to bear the financial consequences of failure to a larger extent than they do today, many of the control procedures before, during and after project implementation could be dispensed with.

Net balance

Result-type net financial position – pre-determined net financial position

In the prevailing EU budgetary system, revenues from individual member states and expenditures allocated to them are not interrelated. Both the own resources system and the expenditures include components that make it impossible to calculate *ex-ante* the exact net financial position, although an estimation of the magnitude of that position is possible.[87]

In the current system, the net financial positions of individual member states vary considerably and are correlated to national prosperity only to a limited extent. The net

[87] Nonetheless, it would be possible to introduce a system with a pre-fixed net balance. That requires fixing member states' contributions exactly as well as a fixed national envelope for expenditures, both calculated for a year, and finally a compensatory system that adjusts to the difference between the pre-fixed and actual financial position of individual member states in any single year.

financial position is a result of several unrelated sub-items on both the own resources and expenditure side. This system of result-type net financial positions is sustainable, only if the discretionary interventions to remedy obvious injustice are few and far between – and only if all member states accept them. Any escalation in this field that would make the exception the rule would jeopardize the whole system. The European Commission's proposed general correction mechanism is designed to move from discretionary interventions (UK rebate, rebate on the UK rebate) to systemic intervention. This would also mark a shift away from the result-type net financial position.

Member state interests expressed indirectly – member state interests expressed openly

What do individual member states contribute to the EU budget in any given year, and how much will they contribute in the future, and why so much, why not less or more? What is the net financial balance for a member state in its transactions with the EU budget? The EU Commission explicitly tries to avoid giving clear-cut answers to these questions since, in its view, it would lead to a 'juste retour' attitude on the part of the member states and culminate in an endless discussion on the subject of 'who pays how much and why?' and 'who gets how much and why?', respectively.

It is often heard that a member state's net financial balance does not indicate how much the country gains from EU membership. This statement is true; however, it certainly has its limitations. Up to as late as 1994, the Commission's reluctance to talk about redistribution in the Union went so far that it refrained from publishing details of the allocation of revenues/expenditures across member states.[88] The Commission's proposal for the reform of the EU budget's revenue side via the introduction of a European tax on either corporate income or energy fits in exactly with this line of thinking; national treasuries should be kept as far away as possible from the issue of contributions to the EU budget. Instead, the citizens or enterprises of Europe should contribute to the common European budget. The core of this approach is to ignore, as much as possible, the differences across member states in terms of contributions to and transfers from the EU budget. Despite the semi-transparent procedures, this works as long as the member states' interests are respected to a certain extent. As the case of the UK rebate shows, when the vital interests of a member state are at stake, this nebulous approach reaches its limits. As the case of the Austrian, Dutch, German and Swedish rebate on the UK rebate shows, one discretionary intervention opens the door to a sequence of corrective measures to comply with the needs of those member states whose interests are seen to have been hurt.[89]

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88 Stegarescu (2001).

89 The UK has been re-compensated for its excessive negative net financial position vis-à-vis the EU budget since 1984. Since 2002 four net payer countries' contribution to the financing of the UK rebate has been reduced to 25% of their normal share. European Commission (2004), p. 38. It is worth mentioning that the new members are also contributing to the financing of the UK rebate.

The other extreme would be to: (a) draw up clear and transparent rules of the game for both the own resources and expenditures; and (b) set limits for individual member state contributions with the option of a corrective mechanism, should the deficit exceed a certain limit. Furthermore, on the expenditure side, member states would receive precisely calculated national envelopes, with a ceiling for the total and programme specific transfers available to them in any given year over the period. This approach has the disadvantage of paving the way for arduous bargaining on the member state-specific net positions; however, its chief merit would be that once the initial bargaining is over, the result would be clear for all to see and there would be no call for endless discussions on corrective measures (like those surrounding the UK rebate). Admittedly, this approach is less 'European' than the previous one, since national treasuries would certainly be involved in making it simple, exact and transparent.

4 Own scenarios for the EU budget 2007-2013

Description of the scenarios

The number of possible combinations of spending targets, allocated resources, individual (non systemic) regulations for selected areas as a consequence of compromises is almost endless. Scenarios presented in this paper offer characteristically different solutions, not so much as a tool to predict what will be achieved in real life, but rather to illustrate the consequences of various alternative approaches to a given problem.

The first of the scenarios presented below is identical to the Commission's proposal published in February 2004 for the EU budget for 2007-2013. [90] The other scenarios were constructed by the author of this paper. Nevertheless, they all rely to some extent on the Commission's original proposal. That is all the more expedient as ongoing discussions on the future EU budget also rely on that framework. Consequently, headings and sub-headings for the main policy areas, as well as determinants of the CAP have been drawn from the Commission's proposal. A common feature of all scenarios is that the values for two items of expenditure never change: (a) the bulk of agricultural expenditures for reasons mentioned earlier; and (b) expenditures on administration. The latter is explained by the assumed rigidity of related outlays under any circumstances.

Moderate reform scenarios

- *1A The Commission's proposal*

[90] European Commission (2004a).

In this scenario, it is assumed that the member states approve the propositions put forward by the Commission in February 2004.[91] Nevertheless, this scenario cannot be labelled status quo because the Commission's proposal represents a partial departure from the spending structure of the current financial perspective (2000-2006). The newly created section Competitiveness (sub-heading 1a) seems to be more than just a somewhat inflated version of current internal policies. Furthermore, the funding of individual programmes will be simplified and become more transparent than it is today. An important new element will be the introduction of a general correction mechanism to address the problem of excessive negative net financial positions.

An important element of continuity with the current budgetary practice is that the member states will be compelled to focus more on establishing their overall balance of costs and benefits than on satisfying their interests in each and every respect. Furthermore, uniform solutions will take preference over diverse solutions for financial, allocative and redistributive problems. Compared to the current situation there will be no changes in the distribution of financial and allocative leverage between the EU and the member states.

The reform of the own resources system, the partial introduction of a Union-wide tax, is only foreseen for the medium term.

This scenario is based on the assumption that the Commission will be able to convince the main net-payer member states to accept the redistribution rate proposed by the Commission (1.26% of the EU GNI in commitment terms, 1.14% in payment terms, on average in 2007-2013). In the bargaining process, a slightly lower redistribution rate may still be the final outcome, designed to 'save the face' of the six major net-payers who protested fiercely against the Commission's proposal in that respect. Should this attempt fail, we will have to shift to Scenario 1B.

- *1B The Commission's proposal reduced to 1% of EU GN*

The conceptual background and the individual policy framework are identical to those in the Commission's proposal. However, the basic assumption is that the main net-payer countries cannot be convinced of the need to abandon their original stance on substantially reducing the redistribution through the EU budget; the extent of which will be 1% of the EU GNI or only marginally more (commitment appropriations).

As in a moderate reform scenario, it is assumed that no rearrangement in the spending targets will occur. In practical terms, this means that in order to arrive at a 1% budget, all

[91] For a detailed description of the Commission's proposal see p. 37.

items (except for administration and agriculture, which remain constant) will be reduced by the same proportion (the ‘lawnmower’ method).

- *1C A compromise half-way*

If neither the Commission nor the main net-payer member states are able to convince themselves and all the other member states, a compromise halfway is quite likely (halfway between the Commission’s proposal 1.26% of the EU GNI and the 1% of the EU GNI, as required by the net payers, both in commitment terms).

Radical reform scenarios

In both radical reform scenarios, the extent of redistribution across member states has been fixed at 1% of the EU GNI (in terms of commitments), according to the request of the six major net-payer countries.

The redistribution rate is closely correlated with the issue of how radical the reforms will be. If the Commission’s proposal were accepted, the evolutionary development with the minimal necessary changes would be the easier route to take. Insisting on the 1% budget while confronting the challenges posed by the increased number and heterogeneity of member states in the enlarged EU creates strong pressure for reform.

- *Scenarios 2A More competitiveness*

In this scenario the guiding principle is to foster the creation of public goods EU-wide. That target can best be achieved with programmes under sub-heading 1a Competitiveness. Once again, the starting point for the scenario is the Commission’s original proposal. The budget reduction will be confined to ‘less efficient’ expenditures[92] earmarked for the convergence of less developed regions or member states. In practical terms, this means that all spending in the Commission’s original proposal would be kept intact, except for the spending under sub-heading 1b, Cohesion.

In return for the reduced transfers for less developed member states, the rules for spending on transfers for Convergence would be relaxed. Transfers for Cohesion would be aimed at member states (and not regions) and the latter would be allowed to allocate them across a set of carefully selected targets, including regional policy measures.

[92] For a discussion on the efficiency of Structural Policy see Funck and Pizzati (2003).

The ‘jewel in the crown’ of this scenario is sub-heading 1a Competitiveness: the main source of financing for the provision of public goods EU-wide. The modality of spending under this sub-heading may reflect two different philosophies.

- *Scenario 2A (i) More competitiveness – the centralizing version*

In a centralizing approach, competitiveness transfers would be allocated to national envelopes, with very limited or no room for open competition for projects across member states. Competition would be encouraged exclusively among applicants within each member state. National co-financing rates would be substantial, reflecting strong EU leverage. For budgetary balances, a general correction mechanism would be introduced, along the lines of the Commission’s proposition.

- *Scenario 2A (ii) More competitiveness – the decentralizing version*

Competitiveness transfers would be only partially allocated to national envelopes, with significant room being left for open competition for projects across member states. Rules for convergence spending targets for less developed member states are more relaxed in this scenario, with a broader range of eligible programmes. An ever-increasing share of the transfers would appear in the form of preferential credit instead of subsidies. National co-financing rates would be modest, indicating weak EU-leverage. Owing to partially free competition for resources, a wider spread of net financial positions may emerge; the introduction of a general corrective mechanism is thus of vital importance.

2A (i) and 2A (ii) differ only in the degree to which decisions are centralized, but not in terms of expenditures. Table 4.4 shows the projected allocation of expenditures in both sub-scenarios.

- *Scenario 2B More cohesion*

In this scenario, the guiding principle of redistribution across member states is the need to reduce the gap in development levels between prosperous and less prosperous EU members. Redistributive spending justified by differences in the level of development across member states or regions of member states is clearly preferred to allocative spending with the aim of providing public goods EU-wide. In practical terms, this means that the sub-heading 1b, Cohesion, in the Commission’s original proposal would remain unchanged, as would direct payments to farmers, rural development (an expenditure item where new members’ enjoy preferential treatment) and finally administration. All other items would be reduced to equal extent.

In return for giving up the vision of significantly increasing budgetary support for the provision of public goods EU-wide, the EU would make an attempt to enhance indirectly investment in the areas concerned. Several spending targets originally allocated to competitiveness would become eligible for support via transfers under the sub-heading Cohesion on preferential terms compared to 'standard' spending targets (e.g. minimum or zero national co-financing rates for R&D projects, etc.).

As cohesion is the principal guideline in this scenario, less prosperous member states would be the most privileged recipients of budgetary support. Member states below 75% per capita GNI (at PPS) would be entitled to receive transfers equal to 4% of their GDP. This group would enjoy the privilege of receiving transfers up to a guaranteed amount. Member states (or their eligible regions) above 75% but below 90% of the EU average would be served on a residual basis. Whatever remains after deducting the guaranteed volume for the group of less developed member states would be allocated to this group. For this group, a cap on total operational expenditures in one member state may be introduced, the cap possibly ranging between 2 and 3% of GDP at the official exchange rate. Contrary to the case of the less developed group, transfers up to the extent of the cap would not be guaranteed.

In this scenario, redistribution across member states plays a much more important role than in the previous scenarios. Consequently, there would be a shift towards the member states' more explicitly manifest interests, especially where the issue of net financial balances is concerned. As the less developed member states will be the focus of spending programmes to the detriment of expenditures enhancing Competitiveness, member states above the EU average level of development will receive substantially less support than in other scenarios. At the same time, they will have to bear the financial burden of EU support for convergence. With increasingly negative net balances, the member states' readiness to tolerate considerable variations will drop markedly. The much feared 'juste retour' approach will come to the fore; the problem will have to be addressed in an appropriate manner. This scenario cannot be realized without a carefully designed general correction mechanism to avoid excessive negative financial positions. The adoption of the Commission's proposal for a general correction mechanism or the elaboration of an alternative solution seems inevitable.

As for the centralization-decentralization dichotomy, this scenario displays features of both. In the Cohesion segment, spending rules are unlikely to be relaxed since more prosperous member states with deteriorating net financial positions will be inclined to insist on strict EU regulations and control of expenditures in recipient member states. Under sub-heading 1a Competition, however, spending rules concerning the allocation of expenditures between targets may be relaxed as a sort of compensation for substantially reduced spending in that segment. Nevertheless, the limits to free competition for resources across member states may have to be set and pre-determined national envelopes elaborated since on being excluded from spending under sub-heading Cohesion and displaying a weak performance in the open bidding for resources in the Competitiveness segment, some ‘rich’ member states may find themselves in an unsustainable net financial position.

Numerical projections for the scenarios

The bases for the numerical projections in the individual scenarios were: (a) Annex III in (Council of the European Union, 2004a) and (b) a paper prepared under the auspices of the Dutch Presidency (Council of the European Union, 2004b), p. 6. The first paper included numerical projections for the detailed breakdown of expenditures by policy area in each year of the period concerned for commitment appropriations. The second paper provided the aggregate sum of total expenditures in a ‘1% of the EU GNI’ budget scenario. A breakdown of expenditures by policy area in the various scenarios was made by adapting the respective proportion across individual expenditure positions in the original Commission proposal. All data refer to commitment appropriations and all expenditures are calculated at 2004 prices.

The projected breakdown by policy area in individual scenarios was calculated as follows. Two items, market-related expenditures and direct payments in agriculture under heading 2, as well as the whole of heading 5 Administration retained the value they had in the Commission’s original proposal[93]; they thus figure as constants in each scenario. Those items are assumed to remain unchanged under all conditions. Market-related expenditures and direct payments are mandatory expenditures and cannot be subject to re-negotiation, whereas administration costs are very rigid and thus to all intents and purposes they are likewise pre-determined. In the moderate reform scenarios, all other expenditures were reduced to the same extent. In the radical reform scenarios apart from the two constant items mentioned above, the other items selected remained unchanged and all other expenditures were reduced at the same rate. In the scenario More competitiveness, each item except heading 1b Cohesion remained unchanged, i.e. the total reduction affected Cohesion alone. In the scenario More cohesion, heading 1b Cohesion and rural development remained unchanged, other items were reduced proportionally. The steps followed in the calculation can be seen in the upper segment of Tables 4.1 to 4.5.

Moderate reform scenarios

In the Commission’s original proposal (Scenario 1A) only one item displays far-reaching changes over all seven years. It is sub-heading 1a Competitiveness, whose share goes up

[93] Council of the European Union (2004a).

from less than 10% to over 16% over the period 2007-2013. (See Table 4.1) Of the most important items, Cohesion will shrink slightly: from more than one third to somewhat less than one third of expenditures. The decrease is more spectacular in direct payments and market intervention in agriculture under heading 2: from about one third to one quarter of the expenditures. There will be a marginal increase in the share of External Policies (Heading 4) and the share of a relatively tiny item under heading 3 Citizenship, etc. will almost double.

Scenario 1B is a reduced version of the Commission's proposal to match the ceiling set by the six net-payer countries for expenditures: 1% of the EU GNI. How large will this reduction be? The most widely published figures indicate a drop from 1.14% of the EU GNI to 1%. The first figure indicates payment appropriations and the second commitment appropriations; thus, they cannot be compared. Compared on equal terms, i.e. commitment appropriations, the drop is substantially larger: from 1.26% to 1% of the GNI. [94]

All of the Commission's detailed plans for the period 2007-2013 are expressed in terms of commitment appropriations. The debate on the next financial perspective will also take place against the backdrop of commitment appropriations. In that context, the figure drops from EUR 1025 billion, the total envisaged expenditures for seven years, to EUR 815 billion for the same period. This represents a reduction rate of 20.5%.

It is expedient to put these figures in context. In the Commission's proposal, expenditures were to grow annually by 4%; in 2013 they would be 31.3% higher (at constant prices) than in 2006. In Scenario 1B, budgeted at 1% of GNI, the annual growth in expenditures would be 0.6% and the compound growth rate for 2013/2006 would amount to only 4.4%. The EU-27 GDP (at constant prices) is estimated to grow by 14.8% over the seven-year concerned: an annual growth rate of 2%.[95]

In Scenario 1B, Administration plus direct payments for farmers and market intervention remain unchanged compared to the Commission's original proposal (Scenario 1A). The rate of reduction for the remaining expenditure items is thus higher than the 20.5% rate of the overall cut, ranging from 32% (in 2007) to 29% (2013), respectively (see Table 4.2).

As 1B is a moderate reform scenario, no major re-arrangements are to be seen across the items of expenditure by policy area. In some areas, the changes are still significant. The share of direct payments and market interventions will be higher than in the original proposal: in 2007 by about 4 and in 2013 by about 8 percentage points. The share of spending on Cohesion will drop by 5 percentage points in 2007 and by 3.5 points in 2013 as originally projected. Up until 2012 the share of direct payments and market interventions

[94] See Figure 1 and Table 1.3 in Chapter 1.

[95] For 2006 Bulgarian and Romanian estimated GDP data were added to the estimated EU-25 GDP. The EU estimate for the EU-27 GNI growth over the seven years is 17.3% or 2.3% annually. Council of the European Union (2004a), p. 5.

will be higher than in 2006, the final year of the current financial perspective, although the member states would like to see a decline in the relative importance of that item.

1C is the moderate reform scenario half-way between the Commission's original proposal (Scenario 1A) and the 1% scenario (Scenario 1B). Here the drop in total expenditures is less marked: about 10%. The rate of reduction in non-constant expenditure items ranges between 15.8% and 14.5% (in 2007 and 2013, respectively). In this scenario, the rearrangements across policy areas are the same as in Scenario 1B; however, to a proportionally smaller extent.

Table 4.1

Scenario 1A Commission's proposal

Expenditures in EUR million	*2006*	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth								
1a Competitiveness	***8791***	**12105**	**14390**	**16680**	**18966**	**21250**	**23540**	**25825**
Education & Training	*650*	950	1250	1550	1850	2150	2450	2750
R&D	*5256*	6325	7525	8750	9950	11175	12375	13600
Transport, Energy and Telecom networks	*1175*	1675	2200	2725	3250	3775	4275	4800
Growth adjustment Fund		1000	1000	1000	1000	1000	1000	1000
Internal market, social policy, administration, etc.	*1711*	2155	2414	2655	2916	3151	3439	3675
1b Cohesion	***38791***	**47569**	**48405**	**49120**	**49269**	**49410**	**50175**	**50960**
Convergence incl. statistical 'phasing out'	*28608*	34723	36039	37249	37947	38657	39355	40074
Regional competitiveness incl. 'natural' phasing out	*6989*	9818	9241	8641	8027	7396	7391	7385
European territorial co-operation	*1975*	1791	1888	1989	2050	2111	2177	2245
EU Solidarity Fund	*961*	942	924	906	888	871	853	837
Other (incl. Administration, etc.)	*259*	295	314	335	357	376	399	419
2.Preservation and management of natural resources	***56015***	**57180**	**57900**	**58115**	**57980**	**57849**	**57825**	**57805**
Direct payments and market intervention in agriculture	*43735*	43500	43673	43354	43034	42714	42506	42293
Rural development	*10544*	11575	12050	12500	12600	12725	12850	12975
Fishery instrument	*909*	1025	1050	1075	1100	1100	1125	1125
Environment	*254*	275	300	325	350	375	400	425
Other (incl. Administration, etc.)	*573*	804	827	862	897	934	944	987
3. Citizenship, freedom, security & justice	***1381***	**1630**	**2015**	**2330**	**2645**	**2970**	**3295**	**3620**
Fundamental rights, migration, fight against crime, etc.	*479*	625	850	1025	1200	1375	1550	1725
Public health, consumer prot., culture, citizenship, adm., etc.	*901*	1004	1165	1304	1445	1595	1745	1895
4. External policies: The EU as a global partner	***11232***	**11400**	**12175**	**12945**	**13720**	**14495**	**15115**	**15740**
The EU and its neighbourhood	*4095*	3325	3625	3875	4225	4500	4600	4800
The EU as a sustainable development partner (incl. EDF)	*4849*	4850	5200	5625	5950	6350	6575	6850
The EU as a global player	*710*	1575	1625	1675	1700	1750	1950	2020
Loan guarantee and emergency aid reserves	*442*	442	442	442	442	442	442	440
Other (incl. admin.)	*1136*	1208	1283	1328	1403	1453	1548	1630
5. Administration	***3436***	**3675**	**3815**	**3950**	**4090**	**4225**	**4365**	**4500**
Compensation	*1041*							
TOTAL (Commitment appropriations)	***120688***	**133560**	**138700**	**143140**	**146670**	**150200**	**154315**	**158450**

Expenditures as % of total	*2006*	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth								
1a Competitiveness	***7.3***	**9.1**	**10.4**	**11.7**	**12.9**	**14.1**	**15.3**	**16.3**
Education & Training	*0.5*	0.7	0.9	1.1	1.3	1.4	1.6	1.7
R&D	*4.4*	4.7	5.4	6.1	6.8	7.4	8.0	8.6
Transport, Energy and Telecom networks	*1.0*	1.3	1.6	1.9	2.2	2.5	2.8	3.0
Growth adjustment Fund	*0.0*	0.7	0.7	0.7	0.7	0.7	0.6	0.6
Internal market, social policy, administration, etc.	*1.4*	1.6	1.7	1.9	2.0	2.1	2.2	2.3
1b Cohesion	***32.1***	**35.6**	**34.9**	**34.3**	**33.6**	**32.9**	**32.5**	**32.2**
Convergence incl. statistical 'phasing out'	*23.7*	26.0	26.0	26.0	25.9	25.7	25.5	25.3
Regional competitiveness incl. 'natural' phasing out	*5.8*	7.4	6.7	6.0	5.5	4.9	4.8	4.7
European territorial co-operation	*1.6*	1.3	1.4	1.4	1.4	1.4	1.4	1.4
EU Solidarity Fund	*0.8*	0.7	0.7	0.6	0.6	0.6	0.6	0.5
Other (incl. Administration, etc.)	*0.2*	0.2	0.2	0.2	0.2	0.3	0.3	0.3
2. Preservation and management of natural resources	***46.4***	**42.8**	**41.7**	**40.6**	**39.5**	**38.5**	**37.5**	**36.5**
Direct payments and market intervention in agriculture	*36.2*	32.6	31.5	30.3	29.3	28.4	27.5	26.7
Rural development	*8.7*	8.7	8.7	8.7	8.6	8.5	8.3	8.2
Fishery instrument	*0.8*	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Environment	*0.2*	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Other (incl. Administration, etc.)	*0.5*	0.6	0.6	0.6	0.6	0.6	0.6	0.6
3. Citizenship, freedom, security & justice	***1.1***	**1.2**	**1.5**	**1.6**	**1.8**	**2.0**	**2.1**	**2.3**
Fundamental rights, migration, fight against crime, etc.	*0.4*	0.5	0.6	0.7	0.8	0.9	1.0	1.1
Public health, consumer prot., culture, citizenship, adm., etc.	*0.7*	0.8	0.8	0.9	1.0	1.1	1.1	1.2
4. External policies: The EU as a global partner	***9.3***	**8.5**	**8.8**	**9.0**	**9.4**	**9.7**	**9.8**	**9.9**
The EU and its neighbourhood	*3.4*	2.5	2.6	2.7	2.9	3.0	3.0	3.0
The EU as a sustainable development partner (incl. EDF)	*4.0*	3.6	3.7	3.9	4.1	4.2	4.3	4.3
The EU as a global player	*0.6*	1.2	1.2	1.2	1.2	1.2	1.3	1.3
Loan guarantee and emergency aid reserves	*0.4*	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other (incl. admin.)	*0.9*	0.9	0.9	0.9	1.0	1.0	1.0	1.0
5. Administration	***2.8***	**2.8**	**2.8**	**2.8**	**2.8**	**2.8**	**2.8**	**2.8**
Compensation	*0.9*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL (Commitment appropriations)	***100.0***	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Council of the European Union (2004), Annex III and own calculations.

Table 4.2

Scenario 1B Commission's proposal with reduced budget (1% of GNI)

EUR million, 2004 prices

	2007	2008	2009	2010	2011	2012	2013
Items remaining as in the original Commission proposal	**47175**	**47488**	**47304**	**47124**	**46939**	**46871**	**46793**
of which:							
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Administration	3675	3815	3950	4090	4225	4365	4500
Key indicators for the scenario							
Original expenditures proposed by the Commission	133560	138700	143140	146670	150200	154315	158450
Total reduced expenditures (1% of EU GNI)	106193	110280	113810	116617	119423	122695	125983
Total reduced expenditures in % of total original expenditures	79.5	79.5	79.5	79.5	79.5	79.5	79.5
Original expenditures less items remaining unchanged (A)	86385	91212	95836	99546	103261	107444	111657
Reduced expenditures less items remaining unchanged (B)	59018	62792	66506	69493	72484	75824	79190
(B) as % of (A)	68.32	68.84	69.40	69.81	70.20	70.57	70.92
coefficient for reduction	0.683	0.688	0.694	0.698	0.702	0.706	0.709
Expenditures in EUR million							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
1. Sustainable growth							
1a Competitiveness	**8270**	**9906**	**11575**	**13240**	**14916**	**16612**	**18316**
Education & Training	649	861	1076	1291	1509	1729	1950
R&D	4321	5180	6072	6946	7844	8733	9645
Transport, Energy and Telecom networks	1144	1515	1891	2269	2650	3017	3404
Growth adjustment Fund	683	688	694	698	702	706	709
Internal market, social policy, administration, etc.	1472	1662	1842	2036	2212	2427	2606
1b Cohesion	**32499**	**33323**	**34087**	**34394**	**34683**	**35409**	**36142**
Convergence incl. statistical 'phasing out'	23723	24810	25849	26491	27135	27773	28421
Regional competitiveness incl. 'natural' phasing out	6708	6362	5996	5604	5192	5216	5238
European territorial co-operation	1224	1300	1380	1431	1482	1536	1592
EU Solidarity Fund	644	636	629	620	611	602	594
Other (incl. Administration, etc.)	202	216	232	249	264	282	297
2. Preservation and management of natural resources	**52845**	**53467**	**53598**	**53468**	**53337**	**53317**	**53294**
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	7908	8295	8674	8796	8932	9068	9202
Fishery instrument	700	723	746	768	772	794	798
Environment	188	207	226	244	263	282	301
Other (incl. Administration, etc.)	549	569	598	626	656	666	700
3. Citizenship, freedom, security & justice	**1114**	**1387**	**1617**	**1846**	**2085**	**2325**	**2567**
Fundamental rights, migration, fight against crime, etc.	427	585	711	838	965	1094	1223
Public health, consumer prot., culture, citizenship, adm., etc.	686	802	905	1009	1120	1231	1344
4. External policies: The EU as a global partner	**7788**	**8381**	**8983**	**9578**	**10175**	**10667**	**11163**
The EU and its neighbourhood	2272	2496	2689	2949	3159	3246	3404
The EU as a sustainable development partner (incl. EDF)	3313	3580	3903	4154	4457	4640	4858
The EU as a global player	1076	1119	1162	1187	1228	1376	1433
Loan guarantee and emergency aid reserves	302	304	307	309	310	312	312
Other (incl. admin.)	825	883	922	979	1020	1092	1156
5. Administration	**3675**	**3815**	**3950**	**4090**	**4225**	**4365**	**4500**
Compensation							
TOTAL (Commitment appropriations)	**106191**	**110280**	**113811**	**116617**	**119422**	**122695**	**125983**

(Table 4.2 continued)

Table 4.2 (continued)

Expenditures as % of total

	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth							
1a Competitiveness	**7.8**	**9.0**	**10.2**	**11.4**	**12.5**	**13.5**	**14.5**
Education & Training	0.6	0.8	0.9	1.1	1.3	1.4	1.5
R&D	4.1	4.7	5.3	6.0	6.6	7.1	7.7
Transport, Energy and Telecom networks	1.1	1.4	1.7	1.9	2.2	2.5	2.7
Growth adjustment Fund	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Internal market, social policy, administration, etc.	1.4	1.5	1.6	1.7	1.9	2.0	2.1
1b Cohesion	**30.6**	**30.2**	**30.0**	**29.5**	**29.0**	**28.9**	**28.7**
Convergence incl. statistical 'phasing out'	22.3	22.5	22.7	22.7	22.7	22.6	22.6
Regional competitiveness incl. 'natural' phasing out	6.3	5.8	5.3	4.8	4.3	4.3	4.2
European territorial co-operation	1.2	1.2	1.2	1.2	1.2	1.3	1.3
EU Solidarity Fund	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Other (incl. Administration, etc.)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
2. Preservation and management of natural resources	**49.8**	**48.5**	**47.1**	**45.8**	**44.7**	**43.5**	**42.3**
Direct payments and market intervention in agriculture	41.0	39.6	38.1	36.9	35.8	34.6	33.6
Rural development	7.4	7.5	7.6	7.5	7.5	7.4	7.3
Fishery instrument	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Environment	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other (incl. Administration, etc.)	0.5	0.5	0.5	0.5	0.5	0.5	0.6
3. Citizenship, freedom, security & justice	**1.0**	**1.3**	**1.4**	**1.6**	**1.7**	**1.9**	**2.0**
Fundamental rights, migration, fight against crime, etc.	0.4	0.5	0.6	0.7	0.8	0.9	1.0
Public health, consumer prot., culture, citizenship, adm., etc.	0.6	0.7	0.8	0.9	0.9	1.0	1.1
4. External policies: The EU as a global partner	**7.3**	**7.6**	**7.9**	**8.2**	**8.5**	**8.7**	**8.9**
The EU and its neighbourhood	2.1	2.3	2.4	2.5	2.6	2.6	2.7
The EU as a sustainable development partner (incl. EDF)	3.1	3.2	3.4	3.6	3.7	3.8	3.9
The EU as a global player	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Loan guarantee and emergency aid reserves	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Other (incl. admin.)	0.8	0.8	0.8	0.8	0.9	0.9	0.9
5. Administration	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**
TOTAL (Commitment appropriations)	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Table 4.3

Scenario 1C Commission's proposal with reduced budget (1.13 % of EU GNI)

EUR million, 2004 prices

	2007	2008	2009	2010	2011	2012	2013
Items remaining as in the original Commission proposal	**47175**	**47488**	**47304**	**47124**	**46939**	**46871**	**46793**
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
5. Administration	3675	3815	3950	4090	4225	4365	4500
Key indicators for the scenario							
Original expenditures proposed by the Commission	133560	138700	143140	146670	150200	154315	158450
Total reduced expenditures (1.13% of EU GNI)	119876	124490	128475	131643	134812	138505	142216
Total reduced expenditures in % of total original expenditures	89.8	89.8	89.8	89.8	89.8	89.8	89.8
Reduced expenditures less items remaining unchanged (B)	72701	77002	81171	84519	87873	91634	95423
Original expenditures less items remaining unchanged (A)	86385	91212	95836	99546	103261	107444	111657
(B) as % of (A)	84.2	84.4	84.7	84.9	85.1	85.3	85.5
Coefficient for reduction	0.842	0.844	0.847	0.849	0.851	0.853	0.855
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
1. Sustainable growth							
1a Competitiveness	**10188**	**12148**	**14128**	**16103**	**18083**	**20076**	**22070**
Education & Training	800	1055	1313	1571	1830	2089	2350
R&D	5323	6353	7411	8448	9510	10554	11623
Transport, Energy and Telecom networks	1410	1857	2308	2759	3212	3646	4102
Growth adjustment Fund	842	844	847	849	851	853	855
Internal market, social policy, administration, etc.	1814	2038	2249	2476	2681	2933	3141
1b Cohesion	**40034**	**40864**	**41604**	**41832**	**42047**	**42792**	**43551**
Convergence incl. statistical 'phasing out'	29223	30424	31549	32219	32896	33564	34248
Regional competitiveness incl. 'natural' phasing out	8263	7801	7319	6815	6294	6303	6311
European territorial co-operation	1507	1594	1685	1741	1796	1857	1919
EU Solidarity Fund	793	780	767	754	741	727	715
Other (incl. Administration, etc.)	248	265	284	303	320	340	358
2. Preservation and management of natural resources	**55012**	**55684**	**55857**	**55725**	**55593**	**55571**	**55550**
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	9741	10173	10587	10698	10829	10959	11089
Fishery instrument	863	886	911	934	936	959	961
Environment	231	253	275	297	319	341	363
Other (incl. Administration, etc.)	677	698	730	762	795	805	844
3. Citizenship, freedom, security & justice	**1372**	**1701**	**1973**	**2246**	**2527**	**2810**	**3094**
Fundamental rights, migration, fight against crime, etc.	526	718	868	1019	1170	1322	1474
Public health, consumer prot., culture, citizenship, adm., etc.	845	984	1104	1227	1357	1488	1619
4. External policies: The EU as a global partner	**9594**	**10278**	**10964**	**11649**	**12335**	**12891**	**13452**
The EU and its neighbourhood	2798	3060	3282	3587	3829	3923	4102
The EU as a sustainable development partner (incl. EDF)	4082	4390	4764	5052	5404	5608	5854
The EU as a global player	1326	1372	1419	1443	1489	1663	1726
Loan guarantee and emergency aid reserves	372	373	374	375	376	377	376
Other (incl. admin.)	1017	1083	1125	1191	1236	1320	1393
5. Administration	**3675**	**3815**	**3950**	**4090**	**4225**	**4365**	**4500**
TOTAL (Commitment appropriations)	**119875**	**124490**	**128476**	**131644**	**134810**	**138505**	**142216**

(Table 4.3 continued)

Table 4.3 (continued)

Expenditures as % of total

	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth							
1a Competitiveness	**8.5**	**9.8**	**11.0**	**12.2**	**13.4**	**14.5**	**15.5**
Education & Training	0.7	0.8	1.0	1.2	1.4	1.5	1.7
R&D	4.4	5.1	5.8	6.4	7.1	7.6	8.2
Transport, Energy and Telecom networks	1.2	1.5	1.8	2.1	2.4	2.6	2.9
Growth adjustment Fund	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Internal market, social policy, administration, etc.	1.5	1.6	1.8	1.9	2.0	2.1	2.2
1b Cohesion	**33.4**	**32.8**	**32.4**	**31.8**	**31.2**	**30.9**	**30.6**
Convergence incl. statistical 'phasing out'	24.4	24.4	24.6	24.5	24.4	24.2	24.1
Regional competitiveness incl. 'natural' phasing out	6.9	6.3	5.7	5.2	4.7	4.6	4.4
European territorial co-operation	1.3	1.3	1.3	1.3	1.3	1.3	1.3
EU Solidarity Fund	0.7	0.6	0.6	0.6	0.5	0.5	0.5
Other (incl. Administration, etc.)	0.2	0.2	0.2	0.2	0.2	0.2	0.3
2. Preservation and management of natural resources	**45.9**	**44.7**	**43.5**	**42.3**	**41.2**	**40.1**	**39.1**
Direct payments and market intervention in agriculture	36.3	35.1	33.7	32.7	31.7	30.7	29.7
Rural development	8.1	8.2	8.2	8.1	8.0	7.9	7.8
Fishery instrument	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Environment	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Other (incl. Administration, etc.)	0.6	0.6	0.6	0.6	0.6	0.6	0.6
3. Citizenship, freedom, security & justice	**1.1**	**1.4**	**1.5**	**1.7**	**1.9**	**2.0**	**2.2**
Fundamental rights, migration, fight against crime, etc.	0.4	0.6	0.7	0.8	0.9	1.0	1.0
Public health, consumer prot., culture, citizenship, adm., etc.	0.7	0.8	0.9	0.9	1.0	1.1	1.1
4. External policies: The EU as a global partner	**8.0**	**8.3**	**8.5**	**8.8**	**9.1**	**9.3**	**9.5**
The EU and its neighbourhood	2.3	2.5	2.6	2.7	2.8	2.8	2.9
The EU as a sustainable development partner (incl. EDF)	3.4	3.5	3.7	3.8	4.0	4.0	4.1
The EU as a global player	1.1	1.1	1.1	1.1	1.1	1.2	1.2
Loan guarantee and emergency aid reserves	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other (incl. admin.)	0.8	0.9	0.9	0.9	0.9	1.0	1.0
5. Administration	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**	**3.2**	**3.2**
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Radical reform scenarios

As mentioned earlier, radical reform scenarios were also elaborated, the assumption being that the 1% GNI ceiling would apply throughout the period 2007-2013. In both radical scenarios, this assumption determines the total expenditures available in individual years.

Scenario 2A More competitiveness is based on the assumption that resources for Cohesion will be radically decreased, while all other items keep their values as set out in the Commission's original proposal. Consequently sub-heading 1b undergoes dramatic shrinkage. Compared to the Commission's original proposal, the reduction in the 'best' year (2007) is 57.5% and in the worst year (2013) it is over 62%. The cut, compared to the Commission's original proposal, is also substantial in absolute terms. It amounts to EUR 27 billion in the first year of the period and EUR 42 billion in the final year. Even more remarkable is that expenditures earmarked for Cohesion in 2006, the final year of the current financial perspective[96], are higher than in any year in the period 2007-2013. In 2013, expenditures on Cohesion will amount to less than half the amount in 2006, the year preceding the accession of Bulgaria and Romania.

The guiding principle of this scenario, More competitiveness, is reflected in the change in breakdown by policy areas. The share of sub-heading 1a Competitiveness makes up only 11% of total expenditures in 2007, while that of Cohesion accounts for about one fifth. By 2013, the proportions can be seen to be shifting in favour of Competitiveness, the share of which will exceed 20% while that of Cohesion will drop to below 15%. All other items with real or imaginary EU-wide value-added (viz. headings 3 and 4) stand to gain, even if on a less spectacular scale than the segment Competitiveness. The share of direct payments to farmers and market intervention will also increase in terms of total expenditures as they are obligatory expenditures and cannot be cut. By no means can that, however, be interpreted as a sign of greater efficiency.

In the other radical reform scenario, More cohesion, the items that remain unchanged beyond the usual 'constants' are under sub-heading 1b Cohesion and Rural Development. Both reflect the emphasis being placed on redistribution favouring the less developed member states and regions. Taken together, the items mentioned here amount to nearly 80% of the total expenditures envisaged for 2007 in the Commission's original proposal. This means that while these items will not be reduced, the remaining 20% will have to bear the brunt of the cut-backs in total expenditures so as to comply with the 1% GNI ceiling. The decrease is so radical in the segments concerned that in 2007 it would not be possible to allocate money to any other policy areas than those whose expenditures remained unchanged. That, however, would not suffice either. Consequently expenditures allocated to heading 5 Administration will have to be cut by EUR 126 million in order to observe the

[96] See Scenario 1A.

ceiling set for total expenditures in that year. After 2007, the situation slowly changes as the relative weight of direct payments to farmers and Cohesion decreases and that of Competitiveness increases. The rate of reduction drops from 92% in 2008 to 68% by 2013.

The breakdown of expenditures by policy area clearly shows that in the first year of the new financial perspective, the policy areas bearing the brunt of the cuts are practically annihilated. In the following years, they will have to be completely re-designed in order to accommodate the reduction in funds. It is interesting that the most future- (or efficiency-) oriented policy area, Competitiveness, will achieve a share of close to 7% by 2013; that, however, is still lower than what it will be (7.3%) in 2006, the closing year of the current financial perspective.

Comparing the two radical reform scenarios, the differences are spectacular (see Table 4.6). In the period 2007-2013 a total of EUR 345 billion is allocated to Cohesion in the scenario More cohesion and about a 40% less, EUR 135 billion, in the scenario More competitiveness. Over the seven-year period the sub-heading Competitiveness absorbs EUR 133 billion in the scenario More competitiveness, yet less than one fifth of that, a mere EUR 28 billion, in the scenario More cohesion.

In both radical reform scenarios, direct payments and market intervention remain the item displaying the highest share in total expenditures: 30-41% of all expenditures. The reason is simple; in none of the scenarios is this item subject to cuts.

Table 4.4

Scenario 2A More competitiveness

EUR million, 2004 prices

	2007	2008	2009	2010	2011	2012	2013
Items remaining as in the original Commission proposal	**85990**	**90295**	**94020**	**97401**	**100789**	**104140**	**107490**
of which:							
1a Competitiveness	12105	14390	16680	18966	21250	23540	25825
2. Preservation and management of natural resources	57180	57900	58115	57980	57849	57825	57805
3. Citizenship, freedom, security & justice	1630	2015	2330	2645	2970	3295	3620
4. External policies: The EU as a global partner	11400	12175	12945	13720	14495	15115	15740
5. Administration	3675	3815	3950	4090	4225	4365	4500
Key indicators for the scenario							
Total original expenditures (Commission's proposal)	133560	138700	143140	146670	150200	154315	158450
Total reduced expenditures (1% of EU GNI)	106193	110280	113810	116617	119423	122695	125983
Total reduced expenditures in % of total original expenditures	79.5	79.5	79.5	79.5	79.5	79.5	79.5
Original expenditures less items remaining unchanged (A)	47570	48405	49120	49269	49411	50175	50960
Reduced expenditures less items remaining unchanged (B)	20203	19985	19790	19216	18634	18555	18493
(B) as % of (A)	42.5	41.3	40.3	39.0	37.7	37.0	36.3
Coefficient for reduction	0.425	0.413	0.403	0.390	0.377	0.370	0.363
Expenditures in EUR million							
1. Sustainable growth							
1a Competitiveness	**12105**	**14390**	**16680**	**18966**	**21250**	**23540**	**25825**
Education & Training	950	1250	1550	1850	2150	2450	2750
R&D	6325	7525	8750	9950	11175	12375	13600
Transport, Energy and Telecom networks	1675	2200	2725	3250	3775	4275	4800
Growth adjustment Fund	1000	1000	1000	1000	1000	1000	1000
Internal market, social policy, administration, etc.	2155	2414	2655	2916	3151	3439	3675
1b Cohesion	**20202**	**19985**	**19790**	**19216**	**18634**	**18555**	**18493**
Convergence incl. statistical ‘phasing out’	14747	14879	15007	14800	14579	14554	14542
Regional competitiveness incl. ‘natural’ phasing out	4170	3815	3481	3131	2789	2733	2680
European territorial co-operation	761	779	801	800	796	805	815
EU Solidarity Fund	400	381	365	346	328	315	304
Other (incl. Administration, etc.)	125	130	135	139	142	148	152
2. Preservation and management of natural resources	**57180**	**57900**	**58115**	**57980**	**57849**	**57825**	**57805**
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	11575	12050	12500	12600	12725	12850	12975
Fishery instrument	1025	1050	1075	1100	1100	1125	1125
Environment	275	300	325	350	375	400	425
Other (incl. Administration, etc.)	804	827	862	897	934	944	987
3. Citizenship, freedom, security & justice	**1630**	**2015**	**2330**	**2645**	**2970**	**3295**	**3620**
Fundamental rights, migration, fight against crime, etc.	625	850	1025	1200	1375	1550	1725
Public health, consumer prot., culture, citizenship, adm., etc.	1004	1165	1304	1445	1595	1745	1895
4. External policies: The EU as a global partner	**11400**	**12175**	**12945**	**13720**	**14495**	**15115**	**15740**
The EU and its neighbourhood	3325	3625	3875	4225	4500	4600	4800
The EU as a sustainable development partner (incl. EDF)	4850	5200	5625	5950	6350	6575	6850
The EU as a global player	1575	1625	1675	1700	1750	1950	2020
Loan guarantee and emergency aid reserves	442	442	442	442	442	442	440
Other (incl. admin.)	1208	1283	1328	1403	1453	1548	1630
5. Administration	**3675**	**3815**	**3950**	**4090**	**4225**	**4365**	**4500**
TOTAL (Commitment appropriations)	**106192**	**110280**	**113810**	**116617**	**119423**	**122695**	**125983**

(Table 4.4 continued)

Table 4.4 (continued)

Expenditures as % of total

1. Sustainable growth							
1a Competitiveness	**11.4**	**13.0**	**14.7**	**16.3**	**17.8**	**19.2**	**20.5**
Education & Training	0.9	1.1	1.4	1.6	1.8	2.0	2.2
R&D	6.0	6.8	7.7	8.5	9.4	10.1	10.8
Transport, Energy and Telecom networks	1.6	2.0	2.4	2.8	3.2	3.5	3.8
Growth adjustment Fund	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Internal market, social policy, administration, etc.	2.0	2.2	2.3	2.5	2.6	2.8	2.9
1b Cohesion	**19.0**	**18.1**	**17.4**	**16.5**	**15.6**	**15.1**	**14.7**
Convergence incl. statistical 'phasing out'	13.9	13.5	13.2	12.7	12.2	11.9	11.5
Regional competitiveness incl. 'natural' phasing out	3.9	3.5	3.1	2.7	2.3	2.2	2.1
European territorial co-operation	0.7	0.7	0.7	0.7	0.7	0.7	0.6
EU Solidarity Fund	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Other (incl. Administration, etc.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
2. Preservation and management of natural resources	**53.8**	**52.5**	**51.1**	**49.7**	**48.4**	**47.1**	**45.9**
Direct payments and market intervention in agriculture	41.0	39.6	38.1	36.9	35.8	34.6	33.6
Rural development	10.9	10.9	11.0	10.8	10.7	10.5	10.3
Fishery instrument	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Environment	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other (incl. Administration, etc.)	0.8	0.7	0.8	0.8	0.8	0.8	0.8
3. Citizenship, freedom, security & justice	**1.5**	**1.8**	**2.0**	**2.3**	**2.5**	**2.7**	**2.9**
Fundamental rights, migration, fight against crime, etc.	0.6	0.8	0.9	1.0	1.2	1.3	1.4
Public health, consumer prot., culture, citizenship, adm., etc.	0.9	1.1	1.1	1.2	1.3	1.4	1.5
4. External policies: The EU as a global partner	**10.7**	**11.0**	**11.4**	**11.8**	**12.1**	**12.3**	**12.5**
The EU and its neighbourhood	3.1	3.3	3.4	3.6	3.8	3.7	3.8
The EU as a sustainable development partner (incl. EDF)	4.6	4.7	4.9	5.1	5.3	5.4	5.4
The EU as a global player	1.5	1.5	1.5	1.5	1.5	1.6	1.6
Loan guarantee and emergency aid reserves	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Other (incl. admin.)	1.1	1.2	1.2	1.2	1.2	1.3	1.3
5. Administration	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**
TOTAL (Commitment appropriations)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 4.5

Scenario 2B More cohesion

EUR million, 2004 prices	2007	2008	2009	2010	2011	2012	2013
Items remaining as in the original Commission proposal	**106319**	**107943**	**108924**	**108993**	**109074**	**109896**	**110728**
of which:							
1b Cohesion	47569	48405	49120	49269	49410	50175	50960
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	11575	12050	12500	12600	12725	12850	12975
5. Administration	3675	3815	3950	4090	4225	4365	4500
Administration reduced by EUR 126 million	3549						
Key indicators for the scenario							
Total original expenditures (Commission's proposal)	133560	138700	143140	146670	150200	154315	158450
Total reduced expenditures (1% of EU GNI)	106193	110280	113810	116617	119423	122695	125983
Total reduced expenditures in % of total original expenditures	79.5	79.5	79.5	79.5	79.5	79.5	79.5
Original expenditures less items remaining unchanged (A)	27241	30757	34216	37677	41126	44419	47722
Reduced expenditures less items remaining unchanged (B)	-126	2337	4886	7624	10349	12799	15255
(B) as % of (A)	...	7.60	14.28	20.23	25.16	28.81	31.97
Coefficient for reduction	...	0.076	0.143	0.202	0.252	0.288	0.320
Expenditures in EUR million							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
1. Sustainable growth							
1a Competitiveness	**0**	**1093**	**2382**	**3838**	**5348**	**6783**	**8255**
Education & Training	0	95	221	374	541	706	879
R&D	0	572	1249	2013	2812	3566	4347
Transport, Energy and Telecom networks	0	167	389	658	950	1232	1534
Growth adjustment Fund	0	76	143	202	252	288	320
Internal market, social policy, administration, etc.	0	183	379	590	793	991	1175
1b Cohesion	**47569**	**48405**	**49120**	**49269**	**49410**	**50175**	**50960**
Convergence incl. statistical 'phasing out'	34723	36039	37249	37947	38657	39355	40074
Regional competitiveness incl. 'natural' phasing out	9818	9241	8641	8027	7396	7391	7385
European territorial co-operation	1791	1888	1989	2050	2111	2177	2245
EU Solidarity Fund	942	924	906	888	871	853	837
Other (incl. Administration, etc.)	295	314	335	357	376	399	419
2. Preservation and management of natural resources	**55075**	**55888**	**56177**	**56109**	**56045**	**56067**	**56079**
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	11575	12050	12500	12600	12725	12850	12975
Fishery instrument	0	80	154	223	277	324	360
Environment	0	23	46	71	94	115	136
Other (incl. Administration, etc.)	0	63	123	181	235	272	316
3. Citizenship, freedom, security & justice	**0**	**153**	**333**	**535**	**747**	**949**	**1157**
Fundamental rights, migration, fight against crime, etc.	0	65	146	243	346	447	551
Public health, consumer prot., culture, citizenship, adm., etc.	0	89	186	292	401	503	606
4. External policies: The EU as a global partner	**0**	**925**	**1848**	**2776**	**3648**	**4355**	**5031**
The EU and its neighbourhood	0	275	553	855	1132	1325	1534
The EU as a sustainable development partner (incl. EDF)	0	395	803	1204	1598	1895	2190
The EU as a global player	0	123	239	344	440	562	646
Loan guarantee and emergency aid reserves	0	34	63	89	111	127	141
Other (incl. admin.)	0	97	190	284	366	446	521
5. Administration	**3549**	**3815**	**3950**	**4090**	**4225**	**4365**	**4500**
TOTAL (Commitment appropriations)	**106193**	**110280**	**113810**	**116617**	**119423**	**122695**	**125983**

(Table 4.5 continued)

Table 4.5 (continued)

Expenditures as % of total	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth							
1a Competitiveness	**0**	**1.0**	**2.1**	**3.3**	**4.5**	**5.5**	**6.6**
Education & Training	0	0.1	0.2	0.3	0.5	0.6	0.7
R&D	0	0.5	1.1	1.7	2.4	2.9	3.5
Transport, Energy and Telecom networks	0	0.2	0.3	0.6	0.8	1.0	1.2
Growth adjustment Fund	0	0.1	0.1	0.2	0.2	0.2	0.3
Internal market, social policy, administration, etc.	0	0.2	0.3	0.5	0.7	0.8	0.9
1b Cohesion	**44.8**	**43.9**	**43.2**	**42.2**	**41.4**	**40.9**	**40.4**
Convergence incl. statistical 'phasing out'	32.7	32.7	32.7	32.5	32.4	32.1	31.8
Regional competitiveness incl. 'natural' phasing out	9.2	8.4	7.6	6.9	6.2	6.0	5.9
European territorial co-operation	1.7	1.7	1.7	1.8	1.8	1.8	1.8
EU Solidarity Fund	0.9	0.8	0.8	0.8	0.7	0.7	0.7
Other (incl. Administration, etc.)	0.3	0.3	0.3	0.3	0.3	0.3	0.3
2. Preservation and management of natural resources	**51.9**	**50.7**	**49.4**	**48.1**	**46.9**	**45.7**	**44.5**
Direct payments and market intervention in agriculture	41.0	39.6	38.1	36.9	35.8	34.6	33.6
Rural development	10.9	10.9	11.0	10.8	10.7	10.5	10.3
Fishery instrument	0	0.1	0.1	0.2	0.2	0.3	0.3
Environment	0	0.0	0.0	0.1	0.1	0.1	0.1
Other (incl. Administration, etc.)	0	0.1	0.1	0.2	0.2	0.2	0.3
3. Citizenship, freedom, security & justice	0	**0.1**	**0.3**	**0.5**	**0.6**	**0.8**	**0.9**
Fundamental rights, migration, fight against crime, etc.	0	0.1	0.1	0.2	0.3	0.4	0.4
Public health, consumer prot., culture, citizenship, adm., etc.	0	0.1	0.2	0.3	0.3	0.4	0.5
4. External policies: The EU as a global partner	0	**0.8**	**1.6**	**2.4**	**3.1**	**3.5**	**4.0**
The EU and its neighbourhood	0	0.2	0.5	0.7	0.9	1.1	1.2
The EU as a sustainable development partner (incl. EDF)	0	0.4	0.7	1.0	1.3	1.5	1.7
The EU as a global player	0	0.1	0.2	0.3	0.4	0.5	0.5
Loan guarantee and emergency aid reserves	0	0.0	0.1	0.1	0.1	0.1	0.1
Other (incl. admin.)	0	0.1	0.2	0.2	0.3	0.4	0.4
5. Administration	**3.3**	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**
TOTAL (Commitment appropriations)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 4.6

Expenditures for cohesion and competitiveness in the various scenarios in the period 2007-2013

EUR billion, 2004 prices	**Scenario 1A (1.26% of EU GNI)**	**Scenario 1B (1% of EU GNI)**	**Scenario 1 C (1.13% of EU GNI)**	**Scenario 2A (More competitiveness)**	**Scenario 2B (More cohesion)**
sub-heading 1a Competitiveness	133	93	113	133	28
sub-heading 1b Cohesion	345	240	293	135	345
Competitiveness in % of Cohesion	39	39	39	99	8

Source: Own calculations based on data of Tables 4.1 to 4.5.

Table 4.7

The composition of expenditures in the European Union's budget in 2007 and 2013, in various scenarios (in %)

Expenditures	***2006***			**2007**					**2013**		
	plan			scenarios					scenarios		
		1A	**1B**	**1C**	**2A**	**2B**	**1A**	**1B**	**1C**	**2A**	**2B**
1. Sustainable growth											
1a Competitiveness	***7.3***	**9.1**	**7.8**	**8.5**	**11.4**	**0.0**	**16.3**	**14.5**	**15.5**	**20.5**	**6.6**
Education & Training	*0.5*	0.7	0.6	0.7	0.9	0.0	1.7	1.5	1.7	2.2	0.7
R&D	*4.4*	4.7	4.1	4.4	6.0	0.0	8.6	7.7	8.2	10.8	3.5
Transport, Energy and Telecom networks	*1.0*	1.3	1.1	1.2	1.6	0.0	3.0	2.7	2.9	3.8	1.2
Growth adjustment Fund	*0.0*	0.7	0.6	0.7	0.9	0.0	0.6	0.6	0.6	0.8	0.3
Internal market, social policy, administration, etc.	*1.4*	1.6	1.4	1.5	2.0	0.0	2.3	2.1	2.2	2.9	0.9
1b Cohesion	***32.1***	**35.6**	**30.6**	**33.4**	**19.0**	**44.8**	**32.2**	**28.7**	**30.6**	**14.7**	**40.4**
Convergence incl. statistical 'phasing out'	*23.7*	26.0	22.3	24.4	13.9	32.7	25.3	22.6	24.1	11.5	31.8
Regional competitiveness incl. 'natural' phasing out	*5.8*	7.4	6.3	6.9	3.9	9.2	4.7	4.2	4.4	2.1	5.9
European territorial co-operation	*1.6*	1.3	1.2	1.3	0.7	1.7	1.4	1.3	1.3	0.6	1.8
EU Solidarity Fund	*0.8*	0.7	0.6	0.7	0.4	0.9	0.5	0.5	0.5	0.2	0.7
Other (incl. Administration, etc.)	*0.2*	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.3	0.1	0.3
2. Preservation and management of natural resources	***46.4***	**42.8**	**49.8**	**45.9**	**53.8**	**51.9**	**36.5**	**42.3**	**39.1**	**45.9**	**44.5**
Direct payments and market intervention in agriculture	*36.2*	32.6	41.0	36.3	41.0	41.0	26.7	33.6	29.7	33.6	33.6
Rural development	*8.7*	8.7	7.4	8.1	10.9	10.9	8.2	7.3	7.8	10.3	10.3
Fishery instrument	*0.8*	0.8	0.7	0.7	1.0	0.0	0.7	0.6	0.7	0.9	0.3
Environment	*0.2*	0.2	0.2	0.2	0.3	0.0	0.3	0.2	0.3	0.3	0.1
Other (incl. Administration, etc.)	*0.5*	0.6	0.5	0.6	0.8	0.0	0.6	0.6	0.6	0.8	0.3
3. Citizenship, freedom, security & justice	***1.1***	**1.2**	**1.0**	**1.1**	**1.5**	**0.0**	**2.3**	**2.0**	**2.2**	**2.9**	**0.9**
Fundamental rights, migration, fight against crime, etc.	*0.4*	0.5	0.4	0.4	0.6	0.0	1.1	1.0	1.0	1.4	0.4
Public health, consumer prot., culture, citizenship, adm., etc.	*0.7*	0.8	0.6	0.7	0.9	0.0	1.2	1.1	1.1	1.5	0.5
4. External policies: The EU as a global partner	***9.3***	**8.5**	**7.3**	**8.0**	**10.7**	**0.0**	**9.9**	**8.9**	**9.5**	**12.5**	**4.0**
The EU and its neighbourhood	*3.4*	2.5	2.1	2.3	3.1	0.0	3.0	2.7	2.9	3.8	1.2
The EU as a sustainable development partner (incl. EDF)	*4.0*	3.6	3.1	3.4	4.6	0.0	4.3	3.9	4.1	5.4	1.7
The EU as a global player	*0.6*	1.2	1.0	1.1	1.5	0.0	1.3	1.1	1.2	1.6	0.5
Loan guarantee and emergency aid reserves	*0.4*	0.3	0.3	0.3	0.4	0.0	0.3	0.2	0.3	0.3	0.1
Other (incl. admin.)	*0.9*	0.9	0.8	0.8	1.1	0.0	1.0	0.9	1.0	1.3	0.4
5. Administration	***2.8***	**2.8**	**3.5**	**3.1**	**3.5**	**3.3**	**2.8**	**3.6**	**3.2**	**3.6**	**3.6**
Compensation	*0.9*										
TOTAL (Commitment appropriations)	***100***	**100.0**	**100**	**100.0**	**100**	**100**	**100.0**	**100**	**100.0**	**100**	**100**

Source: Tables 4.1 to 4.5.

Figure 4a

The composition of expenditures of the European Union's budget in 2007 and 2013 in various scenarios (in %)

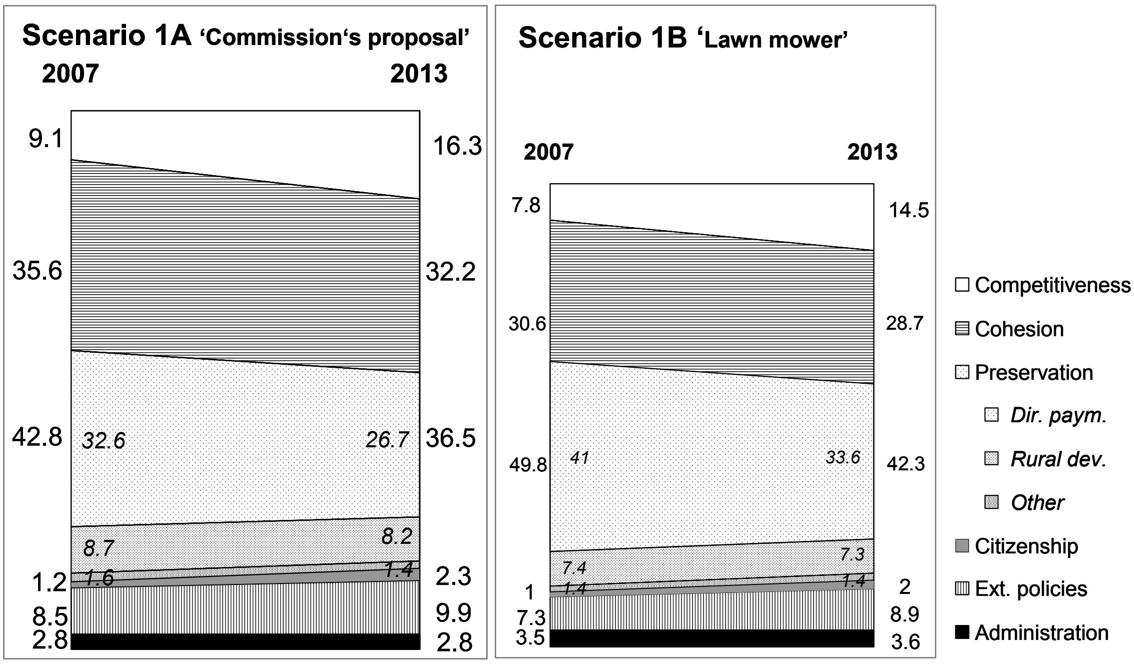


Figure 4b

The composition of expenditures of the European Union's budget in 2007 and 2013 in various scenarios (in %)

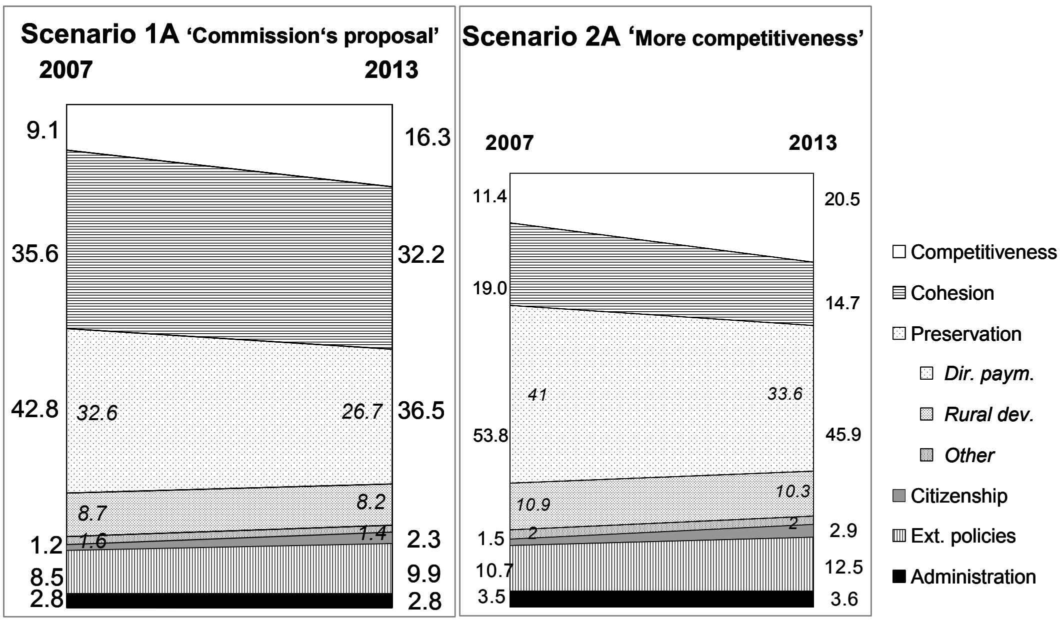


Figure 4c

The composition of expenditures of the European Union's budget in 2007 and 2013 in various scenarios (in %)

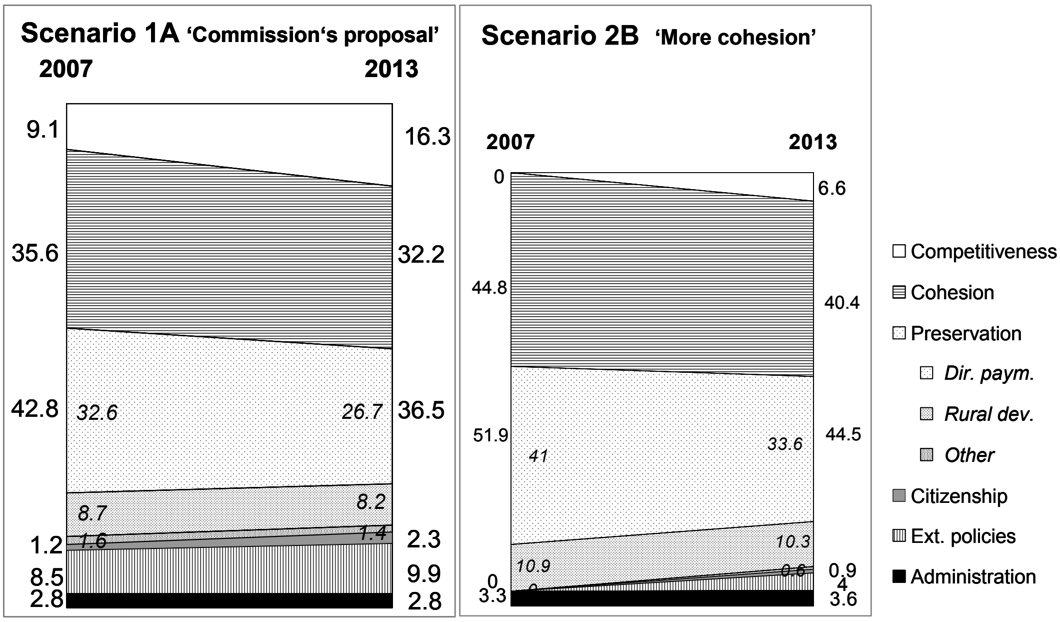
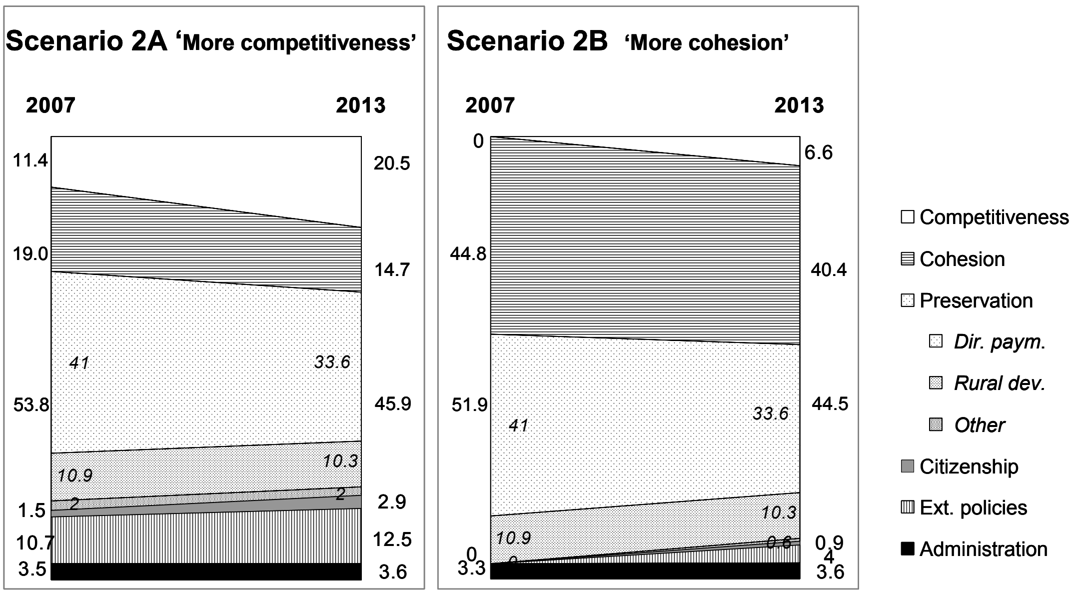


Figure 4d

The composition of expenditures of the European Union's budget in 2007 and 2013 in various scenarios (in %)



New members' position in the various scenarios

Transfers for agriculture (direct payments and market intervention) are fixed up to 2013 for all member states. Support under sub-heading 1a Competitiveness will be available to 'new' member states; however, the more or less free-for-all competition for resources proposed by the Commission bears little promise of their participating significantly in that segment. Hence, for the 'new' member states the most important issue is how much additional funding will be available to them under Cohesion.

Sub-heading 1b Cohesion finances has two main components, Convergence and Regional Competitiveness, where a clearly defined ex-ante allocation of resources is possible.[97] The estimates relating to the 'new' members' position under Cohesion expenditures refer solely to those two major components: Convergence and Regional Competitiveness.

Convergence and Regional Competitiveness will be the sources of support for both 'new' and 'old' member states, with the newcomers being projected to receive transfers predominantly from the first segment. In Convergence, the share of the 'new' member states is planned to be 58.4%; that of the 'old' member states 41.6%. In Regional Competitiveness, 97.7% falls to 'old' member states and only 2.3% to the twelve newcomers.[98,99] Although many details are still obscure, one guiding principle seems clear: the Commission would like to see an apportionment of Structural Policy transfers between 'old' and 'new' member states roughly in the order 50:50.[100]

In Table 4.8 the Structural Policy transfers theoretically available to new member states are shown in the various scenarios in four alternative settings.[101] From the standpoint of the 'new' member states, the most optimistic version is setting (a). Here it is assumed that the 'new' member states will receive Structural Policy transfers equivalent to 4% of their GDP (at the official exchange rate) in any given year of the period concerned. In setting (b), two 'new' member states (Cyprus and Slovenia), both of which will most probably exceed the

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97 Their combined share in 'Cohesion' expenditures ranges between 93% and 93.6% over the seven years concerned. The proportion of 'Convergence' to 'Regional competitiveness' is 78 to 22 in 2007 and 84 to 16 in 2013.

98 Scenario Financier (2004).

99 The source and extent of support is uncertain in the case of Cyprus and Slovenia, which had already surpassed the 75% threshold in 2004. Eurostat (2004).

100 More exactly 51.7% vs. 48.3%. Scenario Financier (2004), pp. 25 and 35.

101 For Table 4.8, EU-27 GDP (at official exchange rate) and GNI (at PPS) data were estimated for the years 2007-2013, all at 2004 prices. The annual real growth rates applied vary according to the relative level of development of the individual member states, based on the assumption that member states at a lower relative level of development are going through a period of more rapid economic growth than the more developed countries. A real growth rate of GDP and GNI, respectively, was estimated on the basis of each member state's relative position to the EU-27 average. In the estimation, those member states below 60% of the EU-27 average per capita GNI at PPS will have an annual growth rate of 5%, those between 60 and 80% a growth rate of 4%; those between 80 and 100% a growth rate of 3% and the member states surpassing the EU-27 average a growth rate of 2%. Any member state exceeding a development level threshold (60, 80 and 100% of EU-27 average) switches over to the appropriate annual growth rate from that year on.

80% development level threshold by 2007, will receive 3% of their GDP – all other ‘new’ members 4%. In setting (c), Cyprus and Slovenia receive only 2% of their GDP in any one year; the Czech Republic and Malta, both of which will have surpassed the 60% threshold, yet remain below 80% in 2007, will receive 3% of their GDP – all other ‘new’ member states 4%. Finally, the most pessimistic setting for the ‘new’ members is based on the assumption that Slovenia, Cyprus, Malta and the Czech Republic will receive 2% of their GDP in each year of the period concerned, while all other ‘new’ member states receive 3%.

In Table 4.8 first the potential values of Structural Policy transfers for the ‘new’ member states were calculated on the basis of their respective shares (2, 3 or 4%) of their GDP. Thereafter, those values were matched with the potentially available resources for Convergence and Regional Competitiveness from the EU budget. All settings were run in each scenario in order to find out how the expenditures earmarked for the ‘new’ member states in Cohesion can accommodate the changing conditions in individual scenarios.

Taking the figures for Scenario 1A (section 2.3 in Table 2) from the Commission’s original proposal, it seems that setting (c) provides the results which are closest to the Commission’s target whereby a ‘new’ member state should absorb half of the resources under Cohesion. That would mean that eight new members would receive about 4% of their GDP in any one year of the period concerned, the Czech Republic and Malta only 3% and the two most developed ‘new; members, Slovenia and Cyprus, only 2%. In this setting, ‘new’ member states would account for somewhat more than half of the resources under Cohesion in 2007-2010, increasingly gradually to two thirds by 2013. The share of the ‘old’ EU members would diminish progressively over the period. In the segment Convergence, ‘new’ member states would absorb two thirds (at the beginning of the period) to three quarters (in the second half of the period) of the funds available.

If all ‘new’ members received transfers of up to 4% of their GDP, old members would only be able to mobilize 43-39% of the total resources earmarked for Cohesion in the period 2007-2009 and 36-29% in the period 2010-2013.

In Scenario 1B where total expenditures are reduced to 1% of the EU GNI, not even setting (d) can ensure that the ‘old’ and ‘new’ members receive more or less the same amount of support under Cohesion. In that case, the ‘old’ EU members would have to be satisfied with about one third of the resources earmarked for Cohesion as the period average. Setting (c) would leave ‘old’ members with about one quarter (at the beginning of the period) to less than 10% of the respective expenditures (at the end of the period). Setting (a) and (b) create conditions that do not correspond to any requirements; hence, they must be dropped.

Table 4.8

Cohesion transfers for new member states in various scenarios

(in EUR million, 2004 prices)

2.1 Calculated Cohesion transfers for new MS, if they receive, in terms of their GDP (at official exchange rate):

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
(a) All new MS 4%	25303	26545	27849	29217	30653	32160	33741
(b) CY and SI 3%; all other new MS 4%	24009	25190	26429	27729	29094	30526	32029
(c) CY and SI 2%; CZ and MT 3%; all other new MS 4%	24874	26101	27389	28740	30158	31647	33209
(d) CY, SI, CZ and MT 2%; all other new MS 3%	17507	18371	19278	20230	21229	22277	23378

2.2 Expenditures allocated for Convergence and Regional competitiveness in various scenarios

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Scenario 1A (Commission's original proposal)							
1b Cohesion	47569	48405	49120	49269	49410	50175	50960
of which: Convergence	34723	36039	37249	37947	38657	39355	40074
Regional competitiveness	9818	9241	8641	8027	7396	7391	7385
Convergence + Reg. Competitiveness	44541	45280	45890	45974	46053	46746	47459
Scenario 1B (1% of GNI)							
1b Cohesion	32499	33323	34087	34394	34683	35409	36142
of which: Convergence	23723	24810	25849	26491	27135	27773	28421
Regional competitiveness	6708	6362	5996	5604	5192	5216	5238
Convergence + Reg. Competitiveness	30430	31171	31846	32094	32327	32989	33659
Scenario 2A More competitiveness							
1b Cohesion	20202	19985	19790	19216	18634	18555	18493
of which: Convergence	14747	14879	15007	14800	14579	14554	14542
Regional competitiveness	4170	3815	3481	3131	2789	2733	2680
Convergence + Reg. Competitiveness	18916	18694	18489	17930	17368	17287	17222
Scenario 2B More cohesion							
1b Cohesion	47569	48405	49120	49269	49410	50175	50960
of which: Convergence	34723	36039	37249	37947	38657	39355	40074
Regional competitiveness	9818	9241	8641	8027	7396	7391	7385
Convergence + Reg. Competitiveness	44541	45280	45890	45974	46053	46746	47459

2.3 Share of NMS in expenditures allocated for Convergence and Regional competitiveness

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Scenario 1A (Commission's Original proposal)							
Convergence + Reg. Comp.	*100*	*100*	*100*	*100*	*100*	*100*	*100*
(a) All new MS 4%	56.8	58.6	60.7	63.6	66.6	68.8	71.1
(b) CY and SI 3%; all other new MS 4%	55.8	57.6	59.7	62.5	65.5	67.7	70.0
(c) CY and SI 2%; CZ and MT 3%; all other new MS 4%	52.5	54.2	56.2	58.9	61.7	63.8	65.9
(d) CY, SI, CZ and MT 2%; all other new MS 3%	39.3	40.6	42.0	44.0	46.1	47.7	49.3
Scenario 1B (1% of GNI)							
Convergence + Reg. Comp.	*100*	*100*	*100*	*100*	*100*	*100*	*100*
(a) All new MS 4%	83.1	85.2	87.5	91.0	94.8	97.5	100.2
(b) CY and SI 3%; all other new MS 4%	81.7	83.7	86.0	89.5	93.3	95.9	98.7
(c) CY and SI 2%; CZ and MT 3%; all other new MS 4%	76.9	78.8	81.0	84.3	87.8	90.3	92.9
(d) CY, SI, CZ and MT 2%; all other new MS 3%	57.5	58.9	60.5	63.0	65.7	67.5	69.5
Scenario 2A More competitiveness							
Convergence + Regional Competitiveness	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
(a) All new MS 4%	133.8	142.0	150.6	162.9	176.5	186.0	195.9
(b) CY and SI 3%; all other new MS 4%	131.5	139.6	148.1	160.3	173.6	183.1	192.8
(c) CY and SI 2%; CZ and MT 3%; all other new MS 4%	123.7	131.4	139.4	150.9	163.5	172.4	181.6
(d) CY, SI, CZ and MT 2%; all other new MS 3%	92.6	98.3	104.3	112.8	122.2	128.9	135.7
(x) CY, SI, CZ and MT 1%; all other new MS 2%	59.1	62.8	66.6	72.1	78.1	82.4	86.8

Source: Own calculation based on estimations for EU-27 GDP (see Appendix Table A4) and the calculations for the individual scenarios.

Table 4.9

Allocation for individual new member states in % of their GDP, with half of Cohesion expenditures being allocated to 'new' members*

Member state	Scenario 1A and 2B *Commission's proposal More cohesion*	Scenario 1B *1% of EU GNI*	Scenario 2A *More competitiveness*	Scenario 1C *Halfway*
Cyprus	2	1	0.4	1.5
Slovenia	2	1	0.4	1.5
Czech Republic	2.5	1.5	0.7	2
Malta	2.5	1.5	0.7	2
Hungary	3.5	2.5	1.4	3
Slovakia	3.5	2.5	1.4	3
Lithuania	3.5	2.5	1.4	3
Poland	3.5	2.5	1.4	3
Estonia	3.5	2.5	1.4	3
Latvia	3.5	2.5	1.4	3
Bulgaria	3.5	2.5	1.4	3
Rumania	3.5	2.5	1.4	3

Notes: * Convergence + Regional competitiveness funds only

Source: Own calculations.

Table 4.10

The share of 'old' member states in Cohesion expenditures in various scenarios*

(in % of total)

	Scenario 1A and 2B *Commission's proposal More cohesion*	Scenario 1B *1% of EU GNI*	Scenario 2A *More competitiveness*	Scenario 1C Halfway
Under the condition, that in % of their GDP the new member states receive:				
All new members receive 4%	36	8	-	25
Cyprus and Slovenia 3%; all other new members 4%	37	10	-	26
Cyprus and Slovenia 2%; the Czech R. and Malta 3%, all other new members 4%	41	15	-	30

Notes: * Convergence + Regional competitiveness funds only

Source: Own calculations.

In Scenario 2A, More competitiveness, the 'new' member states' claims for support under Cohesion would surpass the value earmarked for this item in each setting: (a) to (d). It proved necessary to introduce an auxiliary setting (x) in order to come to viable results. In that setting, Cyprus, Slovenia, the Czech Republic and Malta would receive transfers equal to 1% of their GDP, the other eight 'new' members 2%. This setting would leave 40-13%

(digressively over the period concerned) of resources from Cohesion at the disposal of the ‘old’ EU members.

The results in Scenario 2B More cohesion are identical to those in Scenario 1A, the Commission’s original proposal; hence, it is not discussed here.

As mentioned earlier, the Commission’s proposal for the next financial perspective reckons with an approximately 50:50 participation of the ‘old’ and ‘new’ EU member states, respectively. Taking this proportion as a constraint, which must be observed in the allocation of Cohesion transfers across member states, it is possible to calculate the transfers that individual ‘new’ members are likely to get in the various scenarios as a percentage of their GDP. Three groups were created: (a) the largest group comprising the eight less prosperous ‘new’ member states with per capita GNI (at PPS) below 75% of the EU-27 average in 2007; (b) two countries, the Czech Republic and Malta, with per capita GNP (at PPS) between 75 and 80% of the EU-27 average; and (c) another two countries with per capita GNP (at PPS) between 80 and 90% of the EU-27 average (see Table 4.11).

Table 4.11

Per capita GNI level of EU member states, in 2004 and 2007

in PPS

EU-25 *average = 100*		**EU-27** *average = 100*	
12 MS above 100		**12 MS above 100**	
4 MS between 76 and 100		**7 MS between 76 and 100**	
Spain	94	Spain	100
Cyprus	82	Cyprus	87
Greece	81	Greece	86
Slovenia	78	Slovenia	83
5 MS between 51 and 75		Portugal	79
Portugal	72	Malta	79
Malta	72	Czech R.	77
Czech R.	71		
Hungary	58	**4 MS between 51 and 75**	
Slovakia	51	Hungary	64
		Slovakia	57
4 MS below 51		Lithuania	53
Lithuania	47	Poland	52
Poland	46		
Estonia	45	**4 MS below 51**	
Latvia	44	Estonia	50
		Latvia	50
		Rumania	35
		Bulgaria	34

Source: Estimation. See Appendix, Tables A2 and A6.

As the figures in Table 4.9 indicate, not even in the most favourable case for the new members, i.e. Scenario 1A and 2B, will all the ‘new’ members be able to get 4% of their

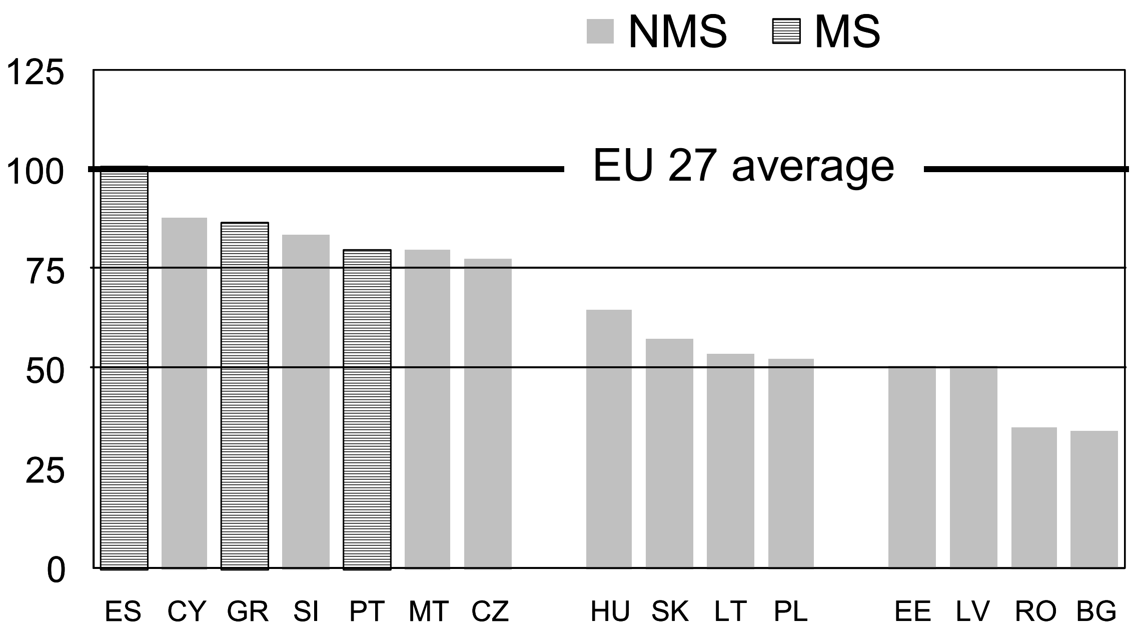
GDP. In the group of eight less prosperous 'new' members, each may receive about 3.5% of its GDP, while the four more prosperous countries would receive less than that: 2.5 and 2%, respectively. In Scenario 1B, the 'new' members would receive substantially less, and even the most privileged poor member states would receive only 2.5% of their GDP. Certainly the least favourable situation emerges in Scenario 2A More competition, with the more prosperous 'new' members getting less than 1% and the less prosperous obtaining less than one and a half percent of their GDP. In Scenario 1C Halfway, the group of eight would be entitled to get 3% of their GDP, the other four new members 1.5-2%.

Provided that member states choose to focus on the neediest 'new' member states as their priority in allocating Cohesion expenditures and drop the idea of a 50:50 split between 'old' and 'new' members, we can estimate the amounts remaining for 'old' member states in the individual scenarios. Figures in Table 4.10 show that if all 'new' members were to receive 4% of their GDP from Cohesion, not even Scenario 1A and 2B would ensure that half of the funds would be allocated to old member states. In Scenario 1B about 8% would remain for that group, in Scenario 2A nothing. The Compromise half-way scenario would still apportion a quarter of the funds to 'old' members. With a somewhat fuzzier focusing, where only those 'new' members with per capita GNI below 75% of the EU-27 average would receive 4% of their GDP, the share of Cohesion expenditures allocated to 'old' members would be somewhat higher.

Figure 5

Per capita GNI level of EU member states

in 2007, in PPS



Source: Table 4.11.

Table 4.12

GDP and GNI of 'old' and 'new' member states below the EU-27 average level of development, 2007 and 2013

in PPS

	2007		2013	
	EUR billion	**share in total** (in %)	**EUR billion**	**share in total** (in %)
GDP at official exchange rate				
'Old' Cohesion countries (Spain, Portugal, Greece)	1203	65	1460	63
'New' members (12)	634	35	845	37
'New' Cohesion countries (15)	1837	100	2305	100
GNI at PPS				
Old Cohesion countries (Spain, Portugal, Greece)	1350	48	1572	49
'New' members 12	1435	52	1625	51
'New' Cohesion countries (15)	2786	100	3197	100

Source: Estimation. See Appendix, Tables A4 and A6.

The net financial positions

It is very difficult to foresee the net financial balances of the member states in the period 2007-2013. First, the net positions in the past three years of the current financial perspective (2004-2006) are not illustrative as the phasing-in of Structural Policy transfers for the 'new' members shows the related costs to be lower now than they are likely to be from 2007 onwards. Secondly, Bulgaria and Romania will probably accede in either 2007 or the year after, thus increasing the claims on transfers still further. Whereas the financial consequences of the 2002 agreement on direct payments for farmers and market intervention are clear and can be anticipated, other important headings and sub-headings are subject to negotiation. For sub-heading 1b Cohesion an adapted version of the currently applied 'Berlin allocation method' will be used.[102] The manner in which the current method should be changed is a subject of discussion.

The rules governing allocations under sub-heading 1a Competitiveness are still unclear. In principle, free competition for resources should be applied here, with minimal or no intervention to influence the allocation of expenditures across member states. The widely divergent views can be clearly seen in a paper prepared by the Council of the European Union summarizing the current status of the discussion. It reads:

'A number of delegations emphasised the importance of providing fair access to the various programmes envisaged in order *to ensure a balanced distribution* between <u>all</u>

[102] The Berlin method is an algorithm used to calculate commitment appropriations for individual member states, taking into consideration the population of the eligible regions, regional prosperity, national prosperity and unemployment in the eligible regions. For details see Article 7 of Regulation 1260/1999. (Council of the European Union 2004b) p. 30.

Member States of benefits accruing from EU expenditure; it was pointed out in this connection that action under this Heading should *contribute to narrowing the development gap* between Member States and to a greater integration in the enlarged Union. Most delegations, for their part, pointed to the importance of the *criterion of excellence* as regards access to programmes.' [103] (emphasis added)

The concern over the balance of allocations across member states may be well founded, as revealed by the projected structure of expenditure under sub-heading 1a Competitiveness. About half of the related funds are to be committed to R&D. Currently some 70% of the support for R&D from the EU budget is absorbed by five member states. If those proportions in allocations across member states were to be retained, the new member stats would enjoy only marginal access to those resources.[104]

Independent of the outcome of the ongoing discussions, there can be no doubt that the net financial position of individual member states will become a more delicate issue than ever before. Furthermore, the requirement that all member states, especially those participating in the Eurozone, observe the general government deficit ceiling of 3% in terms of the GDP in any one year, only serves to complicate the situation facing traditional net payer countries – primarily Germany and, to lesser extent, France.

In order to master the situation the Commission proposes the introduction of a General Correction Mechanism (GCM) to address the problem of individual member states possibly running up excessive deficits. The GCM has two basic elements: (a) a threshold expressed as a share of each member state's GNI; and (b) a compensation mechanism. In the first instance, should a member state record a negative net financial position above that threshold, the corrective mechanism is triggered off. In the second instance, the compensation mechanism shows what share of the deficit above the threshold should be (partially) reimbursed to the member state concerned. Finally, a ceiling is set for the total sum of reimbursements; when this sum is surpassed, then the threshold is raised so that the corrective mechanism is only triggered when a higher deficit is incurred. The Commission proposes a threshold equivalent to 0.35% of the GNI; it would have the same impact on net balances as the UK rebate has today. The proposed reimbursement rate is 66%, the maximum refund being EUR 75 billion. All member states would participate in financing the corrections.[105] It is an open question whether these conditions will satisfy the major payers. Most probably they will not, whereupon they will necessitate the introduction of a cap on the maximum negative financial position. It must be borne in mind that the governments concerned have to defend their positions in their national legislative bodies. It

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[103] Council of the European Union (2004b), p. 8.

[104] Certainly administrative prescriptions, e.g. preference for applications where participants from less developed member states are also involved, may modify the final outcome of the allocation.

[105] Council of the European Union (2004b), p. 86.

is hard to imagine countries struggling to satisfy the Stability and Growth Pact requirements as they relate to their national budgetary balances will be ready on their home fronts to propose a negative net position vis-à-vis the EU in the order of 0.5% of their GNI.

In Table 4.13 the Commission's estimates of the net budgetary balances of the EU-25 are shown at different hypothetical thresholds ranging from zero to -0.5% of a member state's GNI. As already mentioned, the Commission proposes a threshold of –0.35% of the GNI. This rate must have already been adjusted to the planned allocation of budgetary expenditures, even if Bulgaria and Rumania are not yet part of the calculation. Nevertheless, we can take these figures as a data set fairly close to the one that might be calculated for the member states' net position in Scenario 1A.

In that scenario, 15 member states display positive budgetary balances (annual averages for the period 2008-2013). Belgium and Luxembourg owe their inclusion in that number on account of the European institutions operating on their territories. Of the 13 other net beneficiaries, two Baltic states, Latvia and Lithuania, would have a positive net financial position amounting to nearly 4.5% of their annual GNI in that period. The next group of beneficiaries consists of member states with net positions between 3 and 4% of their GNI. (Poland and Estonia, both with 3.79%, Slovakia 3.3%, the Czech Republic 3.2% and Hungary 3.09%) Two of the four more developed new members and two old cohesion countries would have net positions ranging between 1% and 2.2% of their GNI (Greece 2.19%, Portugal 1.54%, Slovenia 1.34% and Malta 1.1%) Finally, one solitary new member, Cyprus, would have to cope with a negative net position: –0.33%. Surprisingly Ireland, a country that has become one of the richest EU members over the past one and a half decades, would record a positive net position of 0.5% of its GNI.

As a consequence of the General Correction Mechanism, the worse net positions would be equivalent to around half a percent of the GNI of the member states concerned. The most negative positions would occur in the UK (-0.51%), the Netherlands (-0.48%), Germany (-0.48%), Sweden (-0.45%) and Austria (-0.41%). Italy and France would have a somewhat smaller deficit (-0.35%) and (-0.33%), respectively. Were Bulgaria and Romania to be included in the calculations, both countries would most probably receive at least 3.5% of their GNI once the phasing-in has been completed, in all probability from 2010 onwards; however, they would receive a much smaller sum in the first half of the new financial perspective. Their inclusion would worsen, albeit to a slight degree, the position of the 'minor' net payers as the correction mechanism would check any further deterioration of the top payers´ net position.

What can we know about the net positions in the other two moderate scenarios: 1B and 1C? In both scenarios the 'lawnmower' method is applied to cut expenditures, i.e. everything is cut proportionally, except for direct payments and market intervention and administration. Unchanged administration expenditures would further increase the net surplus of Luxembourg and Belgium, while unchanged agricultural expenditures would affect old and new members in widely different ways. Countries where this channel of transfers is relatively important would enjoy a more advantageous position favouring the new members Hungary, Lithuania and Poland (see Table 4.14).

In the radical reform scenarios, an assessment of the net positions proves much more difficult. In Scenario 2A More competitiveness, not only would new members and old cohesion countries, but also underdeveloped or otherwise problematic regions in rich old member states would receive radically fewer transfers under sub-heading 1b Cohesion than in the other scenarios. If support were to be focused on the neediest member states and/or regions, it would lead to a substantial deterioration in the net financial position of both the old cohesion countries and the relatively developed new members. Those member states would lose transfers from Cohesion and, were excellence to be the main principle of allocation, they would remain only moderately successful competitors for the resources devoted to Competitiveness. As Competitiveness becomes a more important conduit for transfers, a bitter struggle will ensue between those member states supporting excellence as the main principle of allocation and those calling for a balanced distribution of resources across all member states. This scenario would offer most of the developed old member states a better net financial position than they would have had in the Commission's original proposal. Since the total sum for Competitiveness would remain unchanged, those countries would have better chances of securing Competitiveness funds than the less developed countries. Moreover, in terms of own resources in the EU budget, they would have to contribute less than in the Commission's original proposal on account of the EU budget being smaller.

Scenario 2B More cohesion would mean that the new members' budgetary position remains roughly unchanged compared to the Commission's original proposal, the reason being that the support they enjoy under Cohesion as well as the resources for agricultural support would remain the same compared to the Commission's original proposal. The somewhat lower contribution to own resources on account of the smaller EU budget would improve the new members´ position in terms of revenue. On the other hand, the radical cuts in expenditures under sub-heading 1a Competitiveness would mean that the new members would have practically no chance to participate in those programmes owing to the possibly very harsh competition for resources in that segment. The More cohesion scenario would incur deterioration in the net financial position of those net payer countries that had not hit the threshold deficit of the general correction mechanism in other scenarios. While the most important net payers are likely to reach the threshold level in any event and thus enjoy a refund under the general correction mechanism, a linear worsening of the net financial position of the less 'minor' net payers (Finland, Denmark and Italy) as well as France is still conceivable. The outcome would be a more uniform net financial position across the net payers.

Table 4.13

Estimated net budgetary balances for all member states (annual averages 2008-2013)

in % of GNI

	Without correction	Current UK correction	Generalized Correction Mechanism with threshold levels							
	(1)	**(2)**	**0.00%**	**-0.10%**	**-0.20%**	**-0.25%**	**-0.30%**	**-0.35%**	**-0.40%**	**-0.50%**
Belgium	1.32%	1.21%	1.10%	1.16%	1.21%	1.23%	1.25%	1.26%	1.28%	1.31%
Czech Republic	3.26%	3.17%	3.04%	3.10%	3.15%	3.17%	3.19%	3.20%	3.22%	3.25%
Denmark	-0.20%	-0.31%	-0.29%	-0.30%	-0.30%	-0.29%	-0.27%	-0.26%	-0.24%	-0.21%
Germany	-0.52%	-0.54%	-0.41%	-0.42%	-0.44%	-0.45%	-0.46%	-0.48%	-0.49%	-0.53%
Estonia	3.85%	3.76%	3.63%	3.68%	3.73%	3.76%	3.77%	3.79%	3.80%	3.83%
Greece	2.25%	2.16%	2.03%	2.09%	2.14%	2.16%	2.18%	2.19%	2.21%	2.24%
Spain	0.32%	0.23%	0.10%	0.15%	0.20%	0.23%	0.25%	0.26%	0.28%	0.30%
France	-0.27%	-0.37%	-0.32%	-0.34%	-0.35%	-0.36%	-0.35%	-0.33%	-0.32%	-0.29%
Ireland	0.56%	0.47%	0.35%	0.40%	0.45%	0.47%	0.49%	0.51%	0.52%	0.55%
Italy	-0.29%	-0.41%	-0.34%	-0.35%	-0.36%	-0.37%	-0.36%	-0.35%	-0.34%	-0.31%
Cyprus	-0.28%	-0.37%	-0.31%	-0.32%	-0.33%	-0.33%	-0.33%	-0.33%	-0.32%	-0.29%
Latvia	4.51%	4.40%	4.29%	4.34%	4.39%	4.41%	4.43%	4.45%	4.46%	4.49%
Lithuania	4.50%	4.41%	4.28%	4.33%	4.38%	4.41%	4.43%	4.44%	4.46%	4.48%
Luxembourg	5.89%	5.80%	5.67%	5.73%	5.78%	5.80%	5.82%	5.83%	5.85%	5.88%
Hungary	3.15%	3.06%	2.93%	2.98%	3.04%	3.06%	3.08%	3.09%	3.11%	3.14%
Malta	1.16%	1.06%	0.94%	0.99%	1.04%	1.06%	1.08%	1.10%	1.11%	1.14%
Netherlands	-0.55%	-0.56%	-0.41%	-0.43%	-0.44%	-0.45%	-0.46%	-0.48%	-0.50%	-0.53%
Austria	-0.37%	-0.38%	-0.34%	-0.36%	-0.37%	-0.38%	-0.39%	-0.41%	-0.40%	-0.39%
Poland	3.85%	3.76%	3.63%	3.69%	3.74%	3.76%	3.78%	3.79%	3.81%	3.84%
Portugal	1.60%	1.50%	1.38%	1.43%	1.48%	1.50%	1.52%	1.54%	1.55%	1.58%
Slovenia	1.40%	1.31%	1.18%	1.23%	1.28%	1.31%	1.33%	1.34%	1.36%	1.38%
Slovakia	3.36%	3.27%	3.14%	3.20%	3.25%	3.27%	3.29%	3.30%	3.32%	3.35%
Finland	-0.14%	-0.25%	-0.26%	-0.27%	-0.25%	-0.23%	-0.21%	-0.20%	-0.18%	-0.15%
Sweden	-0.47%	-0.50%	-0.38%	-0.39%	-0.41%	-0.42%	-0.43%	-0.45%	-0.46%	-0.48%
United Kingdom	-0.62%	-0.25%	-0.44%	-0.46%	-0.47%	-0.48%	-0.49%	-0.51%	-0.53%	-0.56%

Source: European Commission (2004c), pp. 37 and 71.

Table 4.14

Direct payments to farmers from the EU budget in selected new member states, 2005

	EUR million	in % of GDP
Estonia	18	0.2
Latvia	21	0.18
Lithuania	66	0.37
Poland	538	0.28
Slovakia	78	0.23
Slovenia	14	0.05
Czech Republic	177	0.18
Hungary	262	0.31
Total	**1174**	**0.25**

Source: Lukas and Pöschl (2003), p. 99.

Table 4.13 presents emerging net financial positions at various threshold rates that trigger the correction mechanism, should the Commission's proposal be approved (N.B. for the EU-25). Apart from the key estimate of the –0.35% threshold, the most interesting figures are those in the first column of the table; they show the net financial balances that would emerge, were no correction mechanism to be applied, i.e. even without the correction currently applied (UK rebate). In that case, the net beneficiaries would enjoy a marginally better position than they would, if the correction mechanism were applied. Differences can be seen among the net payers. Most 'major' net payers (UK, Sweden, the Netherlands and Germany) would come off worse without the correction mechanism.[106] However, the position of Austria would be better in the absence of a correction mechanism. Two large member states (albeit not 'major' net payers), France and Italy, would see their net positions deteriorate, if the correction mechanism were applied. Other member states ('moderate' net payers) would also suffer upon the introduction of the general correction mechanism.

The radical reform scenarios presented in this paper would lead to significant shifts in net positions, but an exact assessment of the changes by individual member states is as yet impossible. This leads to the conclusion that the general correction mechanism proposed by the Commission or a different mechanism with a similar outcome is an important prerequisite for any major reform. The mere fact that no excessive deficits may emerge as a consequence of relatively unpredictable effects should encourage the most developed EU member states to adopt a more open attitude towards changes of all kinds concerning the EU budget.

[106] The UK would come off best if the current 'UK correction' were maintained.

5 Impact of transfers to and from the EU budget on the new member states

The impact in the individual scenarios

When reviewing the impact on new member states of the individual scenarios elaborated in this paper, we have to distinguish between the moderate and radical reform scenarios.

The moderate reform scenarios deviate from each other primarily in terms of the magnitude of the impact: smaller budgets mean fewer contributions to the EU budget and fewer transfers from the same. Since agricultural expenditures will not change, a smaller EU budget means a relative revaluation of the impact stemming from direct payments to farmers and market intervention, and those items' budgetary linkage at the national level through potential top-up payments from the budget.

The scenario More competitiveness will also revalue the impact of agricultural direct payments. Owing to the reduction in the size of the EU budget, the overall demand effects will be smaller. The most important change, however, will occur in the structure of demand generated by the EU transfers. New members will have to participate more intensively in programmes under sub-heading 1a Competitiveness than in the moderate reform scenarios or scenario 2B More cohesion. The recipients of Competitiveness transfers will to a large extent not be the same as those receiving Cohesion transfers. The main new beneficiaries will be research institutes, universities and R&D departments of enterprises. Transfers under sub-heading 1b Cohesion will be substantially smaller than in other scenarios: a severe loss to those sectors of the economy which traditionally absorb these resources.

The scenario More cohesion leaves practically no resources for the new members under the sub-heading 1a Competitiveness. In turn, despite the reduction in the total budget, they may enjoy an unchanged volume of Cohesion transfers as envisaged in the Commission's proposal. This would amount to 3-4% of the GDP in the case of all new members except Malta and the Czech Republic (most probably some 3% of their GDP) and Slovenia and Cyprus (most probably around 2% of their GDP). The More cohesion scenario will also revalue the impact of direct payments.

The More cohesion and More competitiveness scenarios may have a very similar impact in terms of aggregate demand. Individual segments of the economy will, however, be affected to a different extent in the two scenarios; this will be reflected in the different composition of the demand generated by EU transfers and, at a much later stage, in that of supply generated by EU transfers. Once the terms governing the sub-heading Competitiveness have been elaborated, it will be worth considering whether future-oriented spending under Competitiveness or solidarity-based Cohesion transfers are capable of providing more assistance to the new members in their catching-up process.

Further aspects

As the new member states have been contributing to the EU budget to the full extent since the day they joined, accommodating the radical drops in customs revenue, the decrease in VAT revenue and losses due to the GNI proportional contribution to the EU budget will be problems they have already learnt to cope with once the next financial perspective gets under way. It is, however, worth analysing the expenditure side. In that context, the new members will experience a substantial expansion compared to 2004-2006; hence, if there are reforms of any kind, they will be introduced on the expenditure side.

Demand effects

Approaching the problem from the demand side, contributions to the EU budget reduce aggregate demand by about 0.9 to 1.1% of the GNI in the new member states. Transfers from the EU budget may range between 4 and 5.5% of the GNI of the new member states (except Slovenia, Cyprus and Malta)[107]; hence, therefore the net demand effect may amount to more than 3-4.5% of the GNI. The net financial position of the individual member states would more or less reflect the impact on aggregate demand, should Scenario 1A come into effect (see Table 4.13).

On analysing the composition of additional demand generated by EU transfers in the new member states' economies over the period 2007-2013, two major elements emerge: direct payments to agriculture and Structural Policy transfers. As for the former, given the lengthy 'phasing-in' period for direct payments, a gradually increasing proportion of those direct payments will appear in the course of the seven years as demand generated by the farms/farmers receiving them. There being no limitations on the use of those transfers, an unpredictable proportion will be used to meet demand for capital goods, as well as inputs for production and consumption, respectively. Additional gross demand of up to a maximum of 4% of the GNI will be generated by the recipients of Structural Policy transfers. Additional net demand will be lower, if EU resources replace national resources used to fund similar objectives and national expenditures are reduced accordingly. National co-financing of EU-funded projects will add to net demand generated by EU transfers, if no other national expenditures are reduced to the same extent.

As for the recipients of Structural Policy transfers in the new member states, one third (those from the Cohesion Fund) will be absorbed by national treasuries. The recipients of Structural Funds transfers and rural development, two thirds of the total, will be a mixed bag, encompassing the central budget, local governments, NGOs, and SMEs with duly segmented additional demand. Utilization of those resources is strictly regulated; thus, the

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[107] The three most developed new member states will most likely have a much less favourable net financial position than the less developed new member states. (See Table 4.13.)

investment and production input intensity will be high, while the consumption so generated will be modest, but not marginal. 30-40% of the Structural Policy transfers finance operational costs, and not investment.[108] It may be of interest to know that the Commission has estimated that Structural Policy transfers will add 8-9% to investment in Greece and Portugal, 3% in Spain, 7% in the *Mezzogiorno* in Italy and 4% in the new *Länder* in Germany.[109] In the period 1994-2006, Structural Policy transfers, according to the Commission's estimates, have contributed (or will contribute) appreciably to economic growth in the 'old' cohesion countries. In Greece and Portugal respective transfers over the 13-year period amounted, in annual average, to 2.9% and 3.1% of the GDP, respectively. The estimated additional average annual GDP growth (compared to a baseline estimate without Structural Policy transfers) was equal to 1.3% percentage points in both countries. The estimated additional GDP growth was substantially less in the cases of Ireland and Spain, but in the latter two countries the share of Structural Policy transfers expressed as a percentage of the GDP was also substantially lower than in Greece and Portugal.[110]

What is additional demand really? To what extent do transfers merely replace current national financing by EU financing? The additionality principle, i.e. public investment from national resources may not decrease in an area on becoming a recipient of EU transfers, is a condition applied to Structural Fund transfers, but not to Cohesion Fund transfers. The latter transfers are able to fund large-scale transport and environmental projects, while national spending on the same targets is cut back. As for Structural Fund transfers, where additionality is a requirement, the selection of the base period is decisive. For the current 2004-2006 budgetary period, the base period was 1999-2001. In the case of relatively rapidly growing economies such as those in the new member states, a delay of five years on average provides some scope for substitution without violating the additionality principle. This gives rise to a further question about the extent to which the new member states will practice 'creative book-keeping' in order to secure all possible allocations of expenditures in their central budget.

External balance

The demand generated by the EU transfers will be divided into demand for imported and domestic goods and services, respectively. The example of the 'old' cohesion countries shows that around a quarter (in the case of Greece 42% and Portugal 35%) of Structural Policy transfers are spent on imports – typically from highly developed EU member states.[111] This may be a primary impact induced via imports of capital goods or a

[108] Consultation in the Ministry of Finance, Budapest.

[109] European Commission (2004b), p. XVI.

[110] Calculations based on Lolos (2001), p. 20, Table 9.

[111] European Commission (2004b), p. XVII.

secondary effect such as additional imports of consumer goods for persons enjoying revenues from EU-supported projects. Assuming that the extent of Structural Policy transfers in the new member states is equivalent to 2-4% of GNI, additional imports may make up 0.5% to 1.5% of their GNI. The impact on export growth almost defies calculation. It obviously exists; however, it only emerges at a much later date and mostly indirectly in the form of an overall improvement in a member state's ability to supply competitive goods and services and attract additional private (domestic and foreign) investment. Without doubt, the initial impact on the new member states' foreign trade flows will be negative. A study by Bradley, Morgenroth and Gács estimates the Structural Policy actions' foreign trade impact in the period 2007-2020.[112] Their model results indicate that the ten new member states will record an about EUR 90 billion deficit in their trade with the 15 'old' member states in 2007-2013, while in 2014-2020 they will attain a surplus of EUR 81 billion. In both periods the respective trade flows are generated by Structural Policy transfers over seven years in the period 2007-2013.

Contrary to the impact of EU transfers on foreign trade flows, the impact on FDI can only be positive or non-existent. It is implausible that present foreign affiliates would leave a new member state for reasons related to the EU transfers. In favourable cases, a substantial part of the national co-financing of individual projects may come from foreign firms. Alternatively, the prospect of major EU co-financed infrastructure and environmental projects over a longer period (at least up to 2013) lends the necessary impetus to foreign investors to establish an affiliate or upgrade existing plant.

The budget[113]

Owing to the requirement that they contribute to the EU's own resources, the new member states will lose about 0.9 to 1.1% of GNI on account of a drop in budgetary revenues (traditional own resources, VAT component) and an increase in budgetary expenditures (GNI proportional payment to the EU budget).

One third of the Structural Policy transfers (those from the Cohesion Fund) will increase revenue by 1-1.3% of the GNI. Nevertheless, Cohesion Fund transfers will be paid out to final recipients. It is obvious that Cohesion Fund transfers constitute a transitional item in budgetary terms. The real costs to the budget are the 15% national co-financing obligation

[112] Bradley, Morgenroth and Gács (2004), p. 124. The estimation refers to the EU-25.

[113] The implications that EU accession bears for fiscal balances were discussed in detail in Kopits and Székely (2003), Backé (2003) and Mrak (2003). The focus of those papers was on the first years of membership. The period 2007-2013 will bring about somewhat different problems as the loss in fiscal revenue due to contributions of own resources will have already been fully accommodated and the value of transfers received will be substantially (a factor of three) higher than in the first three years of membership.

imposed on Cohesion Fund transfers. The related budgetary burden due to co-financing will be in the order of 0.15-0.2% of the GNI. [114]

Investment financed by the Cohesion Fund may reduce expenditures in the national budget, if they are a substitute for investment expenditures which, for want of EU resources, would have been funded from national budgetary revenue. Provided that all Cohesion Fund transfers replace nationally financed public investment, improvements in the fiscal balance may amount to as much as 1.3% of the GNI, after deducting the national co-financing to 1.1%. On the other hand, if the substitution effect is completely missing, the budgetary balance remains unaffected, or after deducting national co-financing the result is a deterioration of maximum 0.2%. As the new members will make every effort to maximize substitution and since the additionality principle does not apply to Cohesion Fund transfers, the overall net impact may be an improvement in the fiscal balance of the order of 0.5-1% of the GNI. (In the latter case Cohesion Fund transfers would in fact offset, fully or partially, the loss in budget revenue due to contributions to the EU budget.)

The impact of the Structural Fund transfers on the budget is much more difficult to assess. The recipients are manifold; they may be budgetary organs, local governments and municipalities as well as non-government organizations and enterprises (mostly SMEs). Here the additionality principle applies; at least theoretically, substitution may not occur. In this sense, the transfers will 'go through' either the local or central budget increasing revenues and expenditures to the same extent.[115] The real fiscal cost will be the national co-financing provided either by the central budget or by the local governments. It is important to mention that the business sector is also expected to participate in national co-financing.

If the total Structural Policy support amounts to 3 to 4%, and the two-thirds share of Structural Fund transfers makes up 2-2.6% of the GNI (calculated at a 25% co-financing rate), the related burden will make up at least 0.50-0.66% of the GNI. Moreover, in projects supporting profit-generating ventures, the co-financing rate may be higher, occasionally amounting to 50% or more. The mix of projects and the weight of the different co-financing rates may differ sharply from member state to member state. In the unlikely case that half the projects have a 50% co-financing rate, the total burden would be in the range of 1-1.3% of the GNI. Summarizing the above calculations, the expenditures generated by the co-financing requirement of Structural Funds transfers will be in the range of 0.5-1.3% of the new member states' GNI. It must be added that despite the additionality requirement, earnest attempts will be made to substitute EU funds for national resources.

[114] Not in the case of Cyprus, Slovenia and Malta.

[115] Certainly only in those cases where budgetary organs are involved.

Up to this point, the overall fiscal impact is assessed to be in the worst case in the order of -1.5%, in the best case +0.44% of the new members' GNI.[116]

However, three additional issues have a budgetary impact. First, the opportunity to top up EU transfers for farmers from national budgetary resources. That is optional, and the extent of top-up may vary from member state to member state, just as the relative significance of direct payments in terms of GDP varies (see Table 4.14). Top-up payments will constitute additional budgetary expenditures in the first half of the 2007-2013 period (once the EU transfers plus top-up payments come to 100% of the direct payments theoretically allocated to a new member state, a start will have to be made on reducing the top-up as the 'phasing-in' of EU payments continues.

Second, rural development also requires national co-financing. Nevertheless, part of the rural development transfers can be re-allocated to national top-up payments. In the latter case, the burden on the national budget due to top-up payments will be proportionally less.

Third, new member states will participate in programmes financed under sub-heading 1a Competitiveness. The extent of participation and the co-financing rates to be applied in that segment are all unknown; this makes an overall assessment of the budgetary impact impossible as yet.

Finally, the timing mismatch in the financing of Structural Policy actions may become a burden for national budgets. EU co-financed projects are typically financed upon implementation, apart from an advance payment. In the case of insufficient pre-financing by commercial banks the budget (central or local governments) may have to undertake, at least partially, that task.[117]

Crowding out

Will EU co-financed projects crowd out non-EU co-financed public investment? Let us discuss this question in the context of a small case study.

Table 5.1 shows the figures of the Hungarian draft budget (central government) for public investment and development in 2005. 2005 is the second year of Hungary's EU membership and the second year of the three-year 'phasing-in' period for Structural Policy support. It is clear from the data in the table that EU co-financed projects amount to about 16% of total public investment, while the national co-financing of those and other projects

[116] Except for Cyprus, Slovenia and Malta.

[117] Consultations with Elzbieta Kawecka-Wyrzykowska, professor at the Warsaw School of Economics and Statistics.

calls for an additional 8% of the total. Altogether nearly a quarter of public investment is related in some way to the EU.

Table 5.1

Estimated public investment and development in Hungary, 2007

	2005 draft budget		**2007 setting A**		**2007 setting B**	
	HUF million	in %	HUF million	in %	HUF million	in %
Investment and development financed by the EU	176599.9	15.6	353199.8	24.2	529799.7	30.7
Co-financing from the budget (central government)*	90645.8	8.0	154097.9	10.6	244743.7	14.2
Investment financed by the budget (central government)	400971.4	35.5	441068.5	30.3	441068.5	25.6
Investment and development financed by local governments	162221.4	14.4	178443.5	12.2	178443.5	10.4
Investment and development in public private partnership**	300000.0	26.5	330000.0	22.7	330000.0	19.1
Total	**1130438.5**	**100.0**	**1456809.7**	**100.0**	**1724055.4**	**100.0**

Notes: * Main projects only ** Estimated value

Source: 2005: Draft budget of the Republic of Hungary, Annex to the general explanation, p. 478. 2007: own estimation.

Using these data, we may assess the distribution of public investment in the first year of the next financial perspective: 2007. According to setting A, EU co-financed projects and national co-financing in 2007 will amount to twice the value of those items in 2005. In setting B, their value will be three times higher. These two settings mark the range of possible change compared to the situation in 2005. For the other three public investment items in the table, a 10% increase has been estimated in both settings, based on the assumption that non–EU related public investment will increase somewhat more rapidly than the GDP (about 8%) in 2006 and 2007 combined.

In setting A, EU-related public investment (including co-financing) would make up one third of all public investment and development; in setting B 45%. Public investment overall would increase by 29% and 52%, respectively; this would bring about an increase in that segment's accumulated share in the GDP by 2007.

As for the financing of EU-related public investment, we must distinguish between two types. EU co-financed projects as expenditure have their own resources on the revenue side of the budget: the respective transfers from the EU budget. It is only national co-financing that constitutes EU-related budgetary expenditures without external financing. Only the financing of that item may crowd out other non-EU-related national expenditures. The item, however, remains relatively modest: 10.6% and 14.2% of total public expenditure in settings A and setting B, respectively. Even their increment is modest compared to the base year 2005 (2.6 and 6.2 percentage points, respectively). Given that Cohesion Fund support (one third of total Structural Policy support) may also be used for substitution purposes and, by resorting to some tricks, part of the Structural Fund support might be used as well, the actual substitution of EU co-financed projects for nationally financed investment projects may roughly offset the drop in expenditures on national projects due to increasing burden attributable to the co-financing of EU related projects. It, thus, seems that the potential for problems possibly caused by crowding-out is relatively modest.

In this context, however, it must be pointed out that the first years of the period 2007-2013 coincides with the accession of new member states to the European Monetary Union. That means that their general government deficit to GDP ratio will be strictly scrutinized and co-financing of increasing EU inflows will have to take place simultaneously with unchanged or reduced government expenditures in the case of several new members.

6 Member state positions on the next financial perspective

Introductory remarks

Approval of the EU budget for 2007-2013 will have to be unanimous. By June 2006 at the latest (during the Austrian Presidency), member states will have to reduce their widely diverging positions to a common denominator. This chapter addresses the positions of various EU members on selected issues related to the next financial perspective. The positions of five EU member states, Slovenia, Poland, Hungary, Germany and Austria, will be reviewed. The author's reason for selecting those specific countries was to provide as wide a spectrum as possible. Slovenia represents one of the few relatively prosperous new members. Slovenia assumes a special position not only because of its high level of development, but also because of its small territory. Hungary is in the midst of the new member states in terms of development levels, while Poland stands for the group of less prosperous new members. Apart from the question of prosperity, Poland is of paramount importance as it alone represents more than half of the 'new' members' total population. Two countries, Austria and Germany represent the 'old' EU members. Both are important net payer countries in relation to the EU budget and both have enjoyed remarkable secondary gains from the enlarged single market as exporters of goods, services and capital to the 'new' members.

In early 2005, when this paper was completed, the member states' positions were still at an initial stage of elaboration. Each member state had already put forward its view on the most important issues; they had also had the opportunity to learn of other member states' initial positions on those issues. Nevertheless, a gradual rapprochement had only just started, if at all. The last publicly available source of information on the topic was the survey compiled by the Dutch Presidency in late 2004, where member states' opinions are grouped as building blocks along the lines of the major issues in the next financial perspective.[118] At this stage of the decision-making process, member states are still

[118] Council of the European Union (2004b).

‘constructing’ their strategies. A substantial part of the intra-governmental communication on the questions involved and the outcome of calculations related to possible scenarios is not available to the public – nor is it available for research purposes. This also holds true for the corresponding documents and calculations elaborated by the European Commission. These circumstances posed serious constraints on the drafting of this chapter. The sources of information in this chapter were official documents on the subject, interviews conducted with experts from the selected countries and an overview of the subject published by the Institute for World Economics in Budapest.[119]

Slovenia

Extent of the budget

Slovenia supports keeping the ceiling for own resources at 1.24% of the EU GNI. It regards the Commission’s proposal for the size of the future budget as a useful starting point for negotiations. None the less, as the only one of the new member states, Slovenia is not opposed in principle to the 1% of EU GNI budget (commitments) proposed by the six net payer countries. In fact, Slovenia finds it possible to move from the Commission’s proposal towards the ‘1% budget’ proposed by the six major net payer countries. Its readiness, however, is strictly conditional on the manner in which the planned expenditures are reduced. Slovenia is of the opinion that if cuts are inevitable, they have to be across the board; they should not be confined to Structural Policy actions and Competitiveness expenditures that promote the implementation of the Lisbon Strategy.[120] Slovenia would not oppose the re-negotiation of agricultural expenditures.

Policy areas

- Agriculture

In the most general approach to the financial perspectives 2007-2013, Slovenia voices its criticism of the system governing agricultural expenditures. It considers the system over-dimensioned and its efficiency far from satisfactory. A substantial part of the resources used to support agriculture should be spent on other objectives, primarily those of Structural Policy.[121]

Slovenia’s attitude towards direct payments to farmers is partly explained by the country’s unfavourable natural endowment in terms of agriculture, the limited arable area and shortcomings in the organization and structure of agricultural production. Compared to

[119] Szemlér (2004a).

[120] Consultations with Mojmir Mrak, professor of international finance, University of Ljubljana.

[121] Bakács, Novák and Túry (2004), pp. 250-251.

other new members in Central Europe, Slovenia benefits far less from direct payments from the EU budget. Whereas in the calendar year[122] 2005 eight new members[123] will receive on average 0.25% of their GDP as direct payments to farmers, the corresponding figure for Slovenia is only 0.05%. The second least favoured new members are Latvia and the Czech Republic, with 0.18% of their GDP. Important beneficiary member states are Hungary and Poland, with 0.31 and 0.28% of the GDP, respectively.[124] All in all, Slovenia favours a gradual decrease in direct payments and is of the opinion that if agriculture expenditures remain fixed at their present level, realization of the Lisbon strategy will prove impossible.[125]

- Cohesion

In the field of Structural Policy actions, Slovenia rejects the idea of distinguishing between 'old' and 'new' member states; it insists on the application of objective statistics-based criteria for the assessing the eligibility of all member states.[126] Slovenia would not slam the door shut on the (partial) re-nationalization of regional policy, which means that member states with per capita GDP over 90% of the EU average should take care of their own regional problems -- using their national resources.

Together with Cyprus and Malta, Slovenia assumes a special position among the new member states. In other new member states, the regions (except those including their capital cities) are markedly below the 75% eligibility threshold for Objective 1 support from the Structural Funds. In Slovenia, the opposite applies. The country has a problem in that it has no territorial units that correspond to the system of support allocated to NUTS-2 level regions. This does not mean that differences in regional levels of development do not exist in Slovenia. Of the 12 Slovene regions, Osrednje-slovenska, the most developed region, amounts to 142% of the national average, while Pomurska, the least developed region, to 69%. Four of the twelve regions are 20 or more percentage points below the national average.[127] The accession negotiations between Slovenia and the EU concluded with the agreement that the open issue of the territorial division at the NUTS-2 level would be resolved in the follow-up to the negotiations in the post-accession period. On the basis of that agreement Slovenia has re-evaluated the expert and political arguments it used during the accession negotiations and put forward a new proposal for territorial division at the NUTS-2 level with 3 NUTS-2 units: East Slovenia, Central Slovenia and West Slovenia.

[122] The direct payments mentioned here were committed for the year 2004 with actual payment planned for 2005. Nevertheless, new members already managed to initiate actual payments in late 2004.

[123] All except for Malta and Cyprus.

[124] Lukas and Pöschl (2003), p. 99. See Table 4.14.

[125] Bakács, Novák and Túry (2004), p. 256.

[126] Consultations with Mojmir Mrak.

[127] Statistical Office of the Republic of Slovenia (2004), p. 1.

Consultations with the Commission on this proposal are in train.[128] For Slovenia, one of the most important questions pertaining to the next financial perspective is the modality of the country's participation in the Structural Policy actions.[129]

Slovenia agrees with the application of the 4% GDP proportional cap on Structural Policy spending in any member state. Proper consideration of the 'statistical effect' is of particular importance to Slovenia, because the country's level of development, more precisely that of its NUTS-2 regions, will probably surpass 75% of the EU-27 average by 2007.

Slovenia finds it unacceptable that the 'old' cohesion countries which had been at a level of development similar to that of Slovenia today should have received massive Structural Policy support from the EU budget for many years, whereas Slovenia will be excluded from most of those transfers a mere three years after joining. Slovenia's regions should receive full support – not just a small sum from the 'phasing-out' segment. It would be regarded as a bad joke, were a new member state (or its regions) to be slotted into the 'phasing-out' segment from 2007 onwards – before being fully 'phased-in' to the Structural Policy at the end of the previous year. It should also be recalled that unlike the 'old' member states at a similar level of development, Slovenia is still battling with problems related to the country's transition to a market economy.

Slovenia supports the idea of setting up funds for the foster of cross-border relations between member states and their neighbours. This is understandable given the significance of the former Yugoslav republics in Slovenia's external economic relations. Although one of these republics, Croatia, may join the EU as early as 2009, the other successor states of former Yugoslavia have no prospects of EU membership in the near future.[130]

Correction mechanism

In general, Slovenia is against the present system of corrections (UK rebate); it is against single member state solutions on principle. Its target is to abolish all corrections; to that end, Slovenia is ready to participate in discussions on the general correction mechanism.[131] Slovenia is thus open to solutions which yield an arrangement that is better than the UK rebate currently applied.[132]

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[128] Information from the Office of Local Self-Government and Regional Policy, Slovenia.

[129] SEE Security Monitor (2005).

[130] Bakács, Novák and Túry (2004), p. 253.

[131] Bakács, Novák and Túry (2004), p. 257.

[132] Consultations with Mojmir Mrak.

Poland

Extent of the budget

Being by far the most populous among the new member states, Poland has always been aware of its political weight. It also used it in the course of the accession negotiations. With its political clout and resolute negotiating tactics, Poland managed to secure concessions in the final round of negotiations at the Copenhagen Summit in December 2002: something that none of the smaller accession countries achieved. Those hard-nosed negotiation tactics also came to the fore in the discussion on the Constitution. Poland, together with Spain, fought for the weight of political representation in the decision-making process that had been acknowledged at the Nice Summit in 2000.

For all this demonstration of ‘stubbornness’, the Polish position has been remarkably flexible in many details in the current discussions on the next financial perspective.

As for the extent of the budget, Poland, as one of the largest potential recipients in 2007-2013, argues for the highest possible GNI proportional scale of own resources. That notwithstanding, the Polish approach is flexible: it proposes the presentation of the objectives, followed by the joint construction of the budget using the respective building blocks. In the final analysis, it will emerge how much money is needed to realize the preferred objectives. If 1% of the EU GNI is sufficient for that purpose, Poland will be satisfied with that rate.[133] Moreover, Poland is aware of the fact that, the higher the size of the budget, the higher will be Poland’s contributions to the budget and also the related challenges for the public finances.[134]

While the net payers propose focusing of EU expenditures on the neediest member states in return for cutting the committed expenditures to 1% of the EU GNI, Poland rejects the idea of focus. The idea behind this approach is that Poland attaches importance to securing broad support in the EU for the financial perspectives. Focusing would diminish the chances of the budget being approved. For this reason the acknowledgement of special claims by groups of member states is favoured – and not merely those of the less prosperous members. Poland’s approach is based on the conviction that integration will function properly, if each member state’s needs are taken seriously and realized as far as possible. If transfers were to be focused on the less prosperous member states, they would be seen as aid and not as part of a structural modernization programme. The fewer the number of member states involved as beneficiaries, the fewer the number of member

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[133] Consultations with András Bakács and Anna Wisniewski, researchers at the Institute for World Economics at the Hungarian Academy of Sciences, Budapest.

[134] Consultations with Elzbieta Kawecka-Wyrzykowska.

states interested in maintaining redistribution across member state. Poland resolutely opposes stirring up conflicts of interest between old and new members.[135]

Policy areas

- Agriculture

As for the agricultural expenditures, Poland supports increasing the share of rural development under this heading. While supporting the CAP reform of July 2000, Poland cannot accept that reducing direct payments to farmers between 2007 and 2013 would entail fewer payments to Polish farmers, since that would run counter to the Accession Treaty which foresees a 10% annual increase in direct payments to farmers in the new member states.[136]

- Competitiveness

Although most of the transfers from the EU budget to Poland will come from the funds for enhancing Convergence, Poland's interest is not one sided in this respect. It is keenly interested in participating in programmes financed under sub-heading 1a Competitiveness. Poland thus regards the new members' participation in those programmes as a crucial issue.

- Cohesion

Poland would like to raise the share of budget expenditures for Structural Policy actions to 45% of total EU budget, accepting the 4% GDP proportional cap on such expenditures in any member state. Poland would devote the highest share of Structural Policy transfers to supporting Objective 1 regions, where later per capita income would remain the main criterion for eligibility. Poland agrees with the idea that in the next financial perspective new members should also get one third of the Structural Policy supports from the Cohesion Fund, as those countries require relatively more investment than the old member states to attain EU environmental and infrastructural standards.[137]

Poland is dead set against the proposal to re-nationalize (partially) regional policy. For Poland, solidarity and integration as a whole are important. In that respect, some member states would see re-nationalization of an important community policy area as a first step towards withdrawal from integration.[138]

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[135] Kawecka-Wyrzykowska (2004), p. 6 and Bakács and Wisniewski (2004), p. 200.

[136] Bakács and Wisniewski (2004), p. 197.

[137] Bakács and Wisniewski (2004), p. 201.

[138] Bakács and Wisniewski (2004), p. 200.

Poland accepts the Commission's proposal to provide 'phasing-out' payments to regions that are not eligible for Objective 1 support after the enlargement merely because the EU per capita GNI average is now lower than it was prior to enlargement. This support, however, is conditional on the size of those transfers and the date set for their termination.[139] Furthermore, 'the transfers per capita in the regions still facing structural problems should not surpass those in regions of the least wealthy Member States eligible for Objective support'.[140] (Hungary made similar statements about the need for fairness in allocations.)

Although promoting the implementation of the Lisbon strategy is primarily the objective of programmes financed under sub-heading 1a, Poland proposes that part of the spending under Cohesion should also promote Lisbon strategy objectives. For programmes related to the Lisbon strategy, Poland proposes a lower national co-financing rate than in the case of other Structural Policy transfers. In general, Poland is for a forward-looking Structural Policy, preferring improvement of the regions' competitiveness over supporting protection of traditional industries and activities.[141]

General correction mechanism

The EU budget serves financing the common (supranational) policies and should be financed by sources of Community character. Any correction mechanism, linking the level of member states' contributions with the amount of transfers received from the EU budget, does not fit such an approach.[142] Thus Poland rejects the idea of the General Correction mechanism as proposed by the Commission. It seems that Poland attaches greater importance to securing overall benefits from integration than trying to extract maximum advantage in details on the basis of an exact statistical assessment. [143]

Hungary

Extent of the budget

The official position is cautious in this respect. Member states should agree on budget priorities, objectives and structure before embarking on a discussion of its size. The own resources ceiling must be proportionate to the real needs assessed.[144] In an earlier document, it is argued that for Hungary it is indispensable that the extent of own resources

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[139] Bakács and Wisniewski (2004), p. 201.

[140] Gurbiel (2004), p. 45.

[141] Bakács and Wisniewski (2004), p. 201.

[142] Council of Ministers (2004).

[143] Consultations with András Bakács and Anna Wisniewski.

[144] Financial Framework (2004), p. 4.

attain at least the 1.14% of the EU GNI as proposed by the Commission, but an attempt should be made to fill the theoretical gap of up to 1.24% of the EU GNI. The net payer member states' proposal for a smaller budget is rejected, because the most important objectives set out by the EU would not be attainable for want of sufficient resources. Although strengthening the budgetary discipline is also a Hungarian interest, it should be achieved setting better priorities and not by reducing the member states' contribution to the common budget.[145] Expert opinions point out that the approval of the '1%' budget would imply the inevitable re-negotiation of earlier agreements, including the roadmap for the CAP up to 2013.[146] Nevertheless, Hungary's position on the net payer countries' proposal depends on the extent to which a member states' particular interests are met. Should these be met via a reduced EU budget, Hungary would have no reason to oppose the reduction from 1.14%.

Experts consider it important that Hungary does not open discussion on several different issues simultaneously. The country's primary interest is to maximize the resources from the Convergence channel. A conflict of interest with the major net payers cannot be avoided on the size of the EU budget, but attempts should be made to avoid opening the discussion on the allocation of those resources across member states with other net beneficiaries, primarily with the old cohesion countries, as long as a final decision has not been taken on the extent of the budget, i.e. on the sum to be allocated.[147]

Policy areas

- Agriculture

Hungary is interested in maintaining the agreement determining the CAP-related spending up to 2013. Simultaneously, resources for rural development are seen as an important tool for modernizing rural areas in Hungary.[148]

- Competitiveness

While attention is focused on transfers under sub-heading 1b Cohesion, Hungary must make efforts to participate in as many programmes as possible funded under sub-heading 1a Competitiveness. That is in the eminent interests of the most highly developed region I Hungary: Central-Hungary.[149]

[145] Ministry of Foreign Affairs, State Secretariat of Integration and External Economic Relations. Paper for the Integration Cabinet about the first Hungarian position about the financial perspective after 2006, February 2004, as referred to in Inotai (2004), p. 292.

[146] Inotai (2004), p. 286.

[147] Szemlér 2004b), p. 49.

[148] Inotai (2004), p. 294.

[149] Inotai (2004), p. 294.

- Cohesion

Hungary has a good record in the utilization of pre-accession transfers from the EU, at least in comparison to other candidate countries.[150] Accordingly high are the expectations concerning the role that EU co-financed projects will play in the first years of membership – especially in the period covered by the next financial perspective. Hungary (together with Lithuania) argues in favour of increasing the proportion of EU GDP spent on cohesion policy.[151] Experts recommend that together with other Central European member states, Hungary initiate the setting-up of a new community priority for cross-border infrastructure and environment protection investments, targeted explicitly at the Central European region. Those investments would be more efficient than national infrastructure programmes which are often designed and implemented in line with narrow national (domestic policy or simply prestige driven) interests.[152]

Alone among the ten new member states, Hungary maintains the position that the ceiling set at 4% of national GDP for Structural Policy transfers for any member state should be treated both as a maximum and as a minimum limit, i.e. none of the new members should receive less than that amount in the period 2007-2013. The argument behind this proposal is that while a member state's eligibility is calculated at purchasing power standard, the 4% limit is calculated at the official exchange rate; this yields a lower level of support in PPS terms.[153]

Hungary finds it unacceptable that the intensity of support (per capita) is higher in regions in the prosperous old member states than in regions of the less prosperous new member states. This is on account of the 4% GDP proportional cap on Structural Policy transfers colliding with the Berlin methodology used to calculate the value of transfers for eligible individual regions. This means that a substantial part of the transfers to be allocated to regions in new member states according to the Berlin methodology are out of the latter's reach (except for Slovenia and Cyprus). In order to address this problem, it would be expedient to revise and adapt the current allocation rules. If the coverage of the 4% limit could be re-interpreted in a more flexible manner, a solution could be found without having to raise the total expenditures for Cohesion or lift the 4% limit. The result would be a reduction in transfers to regions in the old member states. [154]

[150] CES (2002).

[151] Bachtler and Wishlade (2004), p. 42.

[152] Inotai (2004), p. 291.

[153] Financial Framework (2004), p. 2.

[154] Consultations at the National Development Office, Hungary.

Hungary is against possibly extending the N+2 rule[155] to projects financed by the Cohesion Fund. It is argued that this may lead to serious losses in those major infrastructure investment programmes where the preparatory activities require more time than the typically smaller projects financed under the Structural Funds, where the N+2 rules currently applies. Moreover, Hungary has also called for a relaxation of this rule in respect of projects financed by the Structural Funds.[156] As for the national co-financing of EU-supported projects financed from the Structural Funds, Hungary would wish to reduce the current rate from 25 to 20% for the new member states.[157]

Hungary is satisfied with the Commission's proposal on the flexibility to be accorded to the selection of fields of intervention within the framework of Convergence programmes. Except for certain cases, this remains in the competence of individual member states. However, given its unfavourable experience in the past, Hungary is concerned that this flexibility will decrease in the course of negotiations on programming and operational programmes. Hungary would like to see guarantees (in the form of concrete references) for the preservation of that flexibility. [158]

More flexibility is also a relevant issue in transfers to Central Hungary, the region which includes Budapest and does not qualify for Objective 1 support owing to its relatively high per capita GDP. In the Commission's proposal, the range of possible interventions is substantially reduced in the Regional competitiveness segment compared to the Convergence segment. In Hungary about one third of the total population lives in that particular region, which of itself is very heterogeneous. It will not be possible to implement many of the important projects with EU support if the stringent restrictions on interventions for 'phasing-in' regions are upheld. In order to remedy that shortcoming, Hungary favours applying the same flexible rules for spending in the 'phasing-in' regions as those proposed for the Convergence regions.

General correction mechanism

Hungary is adamantly opposed to any correction mechanism, be it the UK rebate or the general correction mechanism proposed by the Commission. The net position does not of itself reflect the real economic benefits and obligations of membership. Any kind of a correction mechanism is seen to violate the proportionate financing of the Union's budget. According to the Hungarian position that would represent a regressive contribution system

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155 The N+2 rule means that funds committed in year N can be drawn in that year and the two years thereafter, whereupon the committed but unpaid funds are 'recycled' to the EU budget.

156 Consultations at the National Development Office, Hungary.

157 Consultations at the National Development Office, Hungary.

158 Consultations at the National Development Office, Hungary.

where less prosperous member states would have to pay more than in a system without a correction mechanism.[159]

Austria and Germany

Extent of the budget

Both countries are member states with federal structures whose sub-national authorities are strong and have possibly different perspectives from those of the federal government. In Germany, the federal states on the territory of the former GDR have been gaining massively from Objective 1 transfers. Some West German federal states have received little support from Structural Funds, viz. Bavaria and Baden-Württemberg, while others have come away with major gains from Objective 2 supports, such as North Rhine-Westphalia. In Austria Burgenland, Lower Austria and Styria have received substantial transfers, while other federal states have not participated or have only done so to a much lesser extent. In both Germany and Austria, the federal government must take every care to reconcile diverging interests when adopting or changing a position. This reconciliation process is more important in federal states than in non–federal states. [160]

Whereas in Austria the country's contribution to the own resources of the EU is disbursed from the central government budget and the federal states are pre-occupied solely with their participation from transfers, the situation is more complicated in Germany. There contributions to the EU budget are paid in part from the federal states' budgets; consequently, each of them has a separate net financial position vis-à-vis the EU budget. This particular mode of financial management implies more transaction costs in Germany than in Austria, with correspondingly less enthusiasm for participation in the redistribution process.[161]

Austria and Germany are among the net payer countries opposed to the size of the EU budget proposed by the Commission. They are also members of a smaller group, comprising only four countries (Austria, Germany, Netherlands and Sweden) which, since 2002, have enjoyed a 75% reduction in their contribution to the financing of the UK rebate as calculated using the official methodology. In short, the two countries are part of a small group of the most exposed member states in terms of their net budgetary balances; and any change in that context will have far-reaching implications for them.

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159 Financial Framework (2004), p. 5. and consultations in the Ministry of Finance, Hungary.

160 Bachtler and Wishlade (2004), pp. 40-41.

161 Interview with Hertha Tödling-Schönhoffer, Managing partner of ÖIR-Managementdienste Gmb, and consultations with the Austrian Federal Chancellery.

Table 6.1

Net financial position of Austria and Germany vis-à-vis the EU budget, 1997-2003

as per cent of GNP (1997-2001) or GNI (2001-2003)

	1997	1998	1999	2000	2001	2002	2003
Germany	-0.60	-0.54	-0.57	-0.57	-0.46	-0.28	-0.40
Austria	-0.40	-0.40	-0.42	-0.34	-0.33	-0.12	-0.16

Source: Own calculation based on European Commission (2004c), pp. 95, 99 and 104.

Despite the similarities in their net financial positions, the two countries' positions on various areas of the common budget differ markedly.

Data of Table 1.4 show that the share of Germany's contribution to the EU's own resources was more than 1 percentage point higher than its share in the EU's GDP in 2001. This deviation changed significantly in 2002 indicating an improvement in Germany's position in that regard. In 2003 the German contribution was once again relatively greater than its weight in the aggregate economic performance of the EU, but the extent of the deviation was substantially smaller than in 2001: a mere 0.1 percentage point. The change in Germany's contribution to the EU budget described here seems to be related to the reduction in Germany's share in the financing of the UK rebate.

In 2001 Austria's contribution to the EU budget also surpassed its weight in terms of the EU GDP; none the less, the deviation amounted to a mere 0.16 percentage points. The reduction in its contribution to the UK rebate affected Austria favourably. In both 2002 and 2003, the country's contribution to the EU budget was relatively smaller than its share in the EU aggregate economic performance (-0.08 and -0.12 percentage points deviation).

The truly major differences between Austria and Germany are to be seen in the data presented in Table 1.5 where the share of the EU member states in expenditures related to various policy areas is compared to their share in the EU GDP in 2003.

Germany's participation in the total operational expenditures amounted to 13.46%, while its share in the EU GDP came to 22.86%. Austria had a share of 2% in the total operational expenditures and a somewhat higher share (2.43%) in the EU GDP. Whereas the negative deviation was nearly 10 percentage points in the case of Germany, it was less than half a percentage point for Austria.

Of the three main areas of operational expenditures, Germany's negative deviation is more than 9 percentage points in agriculture and structural policies, and 6.6 percentage points in internal policies, relatively the smallest chapter of expenditures.

Austria's position is completely different. Whereas in structural policy operations Austria's share is 1.37 percentage points less than in its share in the EU GDP, the deviation factor takes quite the opposite (positive) direction in two areas, agriculture and internal policies.

All in all, Austria adopts a rather balanced position in terms of the allocation of expenditures across member states, while Germany's position is fairly unbalanced or, more exactly, lopsided. Actually only one other member state has such a negative position in this context: the UK.

What can we draw as a conclusion? It is clear from the data in Tables 1.4, 1.5 and 6.1 that whereas Germany is one of the pillars of the European Union's political construction, its benefits from the integration are also mainly political. In economic terms, the benefits accruing to Germany are primarily indirect, coming as they do from its participation in the single European market. In terms of redistribution across member states via the EU budget, Germany' s net financial position is somewhat less strained than it was before its contribution to the financing of the UK rebate was reduced, yet it is still far from being balanced. In the period 2001-2003, it absorbed on average 0.38% of the country's GNI.

Germany's position in the current discussion on the size of the EU budget in the period 2007-2013 cannot be understood outside the domestic policy context. While the German government is compelled to introduce painful austerity programmes in order to comply with the Stability and Growth Pact requirements concerning the extent of the national budget deficit, it can hardly be expected to display perspicacity or generosity in the debate on the EU budget.

Table 6.2

Germany: fiscal balance and net financial position vis-à-vis the EU budget, 2000-2004

	2000	2001	2002	2003	2004
General government balance (-) deficit (+) surplus*	1.30	-2.80	-3.70	-3.80	-3.90
Net budgetary balance in the EU (-) deficit (+) surplus**	-0.57	-0.46	-0.28	-0.40	n.a.
Hypothetical general government balance cleared from budgetary relations with the EU	1.87	-2.34	-3.42	-3.40	..
Memo: GDP in % of GNP/GNI	101.8	101.8	99.9	99.6	

Notes: * in % of GDP; ** in % of GNP in 2001-2002 and GNI in 2003.
Source: Own calculations based on DG ECFIN (2004), p. 17; Table 6.1, GNI data: European Commission (2004d), p. 104. GDP data: Eurostat.

The figures in Table 6.2 are not exactly comparable values owing to the different bases of projection; none the less, the indicators' order of magnitude clearly shows the relevance of Germany's net financial position in the context of the excessive deficit in the general government balance over the past few years as well as in the years to come. Even if a zero balance vis-à-vis the EU budget had not been sufficient to reduce the general government deficit to less than 3% of the GDP, it would have substantially mitigated the excessive budgetary deficit problem. It is thus understandable why Chancellor Schröder has called for a re-definition of the coverage of general government deficit that takes a member state's net financial position into due consideration. In the case of Germany, the deficit vis-à-vis the EU budget should be deducted from the country's general government deficit.[162]

That notwithstanding, it is unclear whether Germany's proposal that the EU budget ceiling be set at 1% of the EU GNI (commitment appropriations) would improve the country' s net position – and if at all, to what extent. If, as proposed by Germany, the focus were to lie on meeting the needs of the less prosperous member states, Germany might well gain in terms of a lower contribution to the EU budget, but it might well lose in other terms. Expenditure cuts would most probably radically reduce or totally eliminate Structural Policy transfers to all western, and some of the eastern, federal states. Germany would also lose out in terms of secondary redistribution: with the new members receiving fewer transfers, the highly developed EU members would receive fewer additional import orders from the beneficiaries. As mentioned earlier in this paper, close to a third of the transfers received in the cohesion countries is spent on imports. As the main trading partner of most of the new members, Germany will be affected by the reduced number of transfers to the new member states.

Reducing the volume of redistributed resources from 1.26% of the EU GNI to 1% (commitments) as proposed by Germany does not yield clear-cut advantages for the country. Furthermore, the re-definition of the coverage of the excessive budgetary deficit will have a spectacular impact in political terms as well. It can thus be assumed that in the discussion on the extent of the EU budget Germany will prove less intransigent, if it manages to attain its goals in the re-negotiation of the Stability Pact requirements.

Cohesion

Denmark, the Netherlands, Finland and the UK have urged that all regions should be eligible for cohesion policy support: the 'whole-country' approach. Germany, however, is sceptical about a universal cohesion policy; it argues that the EU should focus on regions with specific structural problems.[163] Together with other member states, Germany

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162 *Financial Times Deutschland*, 17 January 2005.

163 Bachtler and Wishlade (2004), p. 46.

welcomed the Commission's proposal to put an end to special treatment for sparsely populated areas.[164]

As one of the initiators of the net payers' '1% budget' proposal, Austria does not insist on spending approximately half of the Cohesion expenditures in the 'old' member states as the Commission envisaged. The Austrian attitude is that prosperous 'old' member states should be in a position to better economize with fewer resources. Nevertheless, Austria does not support the radical Dutch and UK approach that prosperous member states do not need Cohesion support. The 'political marketing' effect of cohesion transfers is thought to be important; citizens of prosperous member states need to experience first-hand the positive impact of this kind of spending in areas where it yields real value-added, such as support for innovative projects, research, rural projects and reconstruction of urban centres. In those particular instances, the results are spectacular and the supportive role of the EU is clear for all to see. Other expenditures, especially those supporting enterprises, do not necessarily need to be funded from the future EU budget. Under normal circumstances the latter investments would also be realized without any EU support, and the results are not apparent to the general public in the recipient member state.[165]

As for splitting funds between Convergence, Regional competitiveness, and Territorial co-operation, Germany calls for a focus. It proposes that 5-10% of total Structural Funds resources at the most should be allocated to non-Convergence objectives.[166]

Focusing is definitely the pet idea of the federal governments in both countries. Opinions other than those held by the federal governments in both countries enter a firm plea for the continuation of EU co-financed programmes in the period 2007-2013. In a position paper drawn up by the EU regions hit by the 'statistical effect', the parties stressed that future cohesion policy cannot be funded mainly at the expense of the former EU-15 regions that are lagging behind. Of the 13 regions launching the initiative, five were from Germany and one from Austria, reflecting a pronounced over-representation of those two member states.[167]

In a position paper prepared by the Conference of Heads of Federal Units in Austria, the continuation of EU regional policy in the currently Objective 2 territories was regarded as inalienable.[168] This certainly means that a plea will be made for continuing this financial support.

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164 Bachtler and Wishlade (2004), p. 48.

165 Consultations at the Austrian Federal Chancellery.

166 Bachtler and Wishlade (2004), p. 47.

167 Position paper (2003), p. 4.

168 Landeshauptleutekonferenz (without date).

The Austrian Federal Economic Chamber (WKO) urges that enterprises located in regions bordering on the new members should receive support under sub-heading 1b Cohesion. EU support for those regions will be cut back in any event, while support for the regions in the new member stats will be substantially increased. Lower wage costs and lower tax rates combined with more support from the EU budget may lead to a relocation of production away from Austria to the neighbouring new member states. It is urged that the difference in the intensity of support should not be more than 20 percentage points on both sides of the border. According to the EU proposal, the difference in intensity could well be of the order of 50 percentage points.[169] Austria should be allowed to provide national support to compensate firms for the deterioration in competitiveness in the border regions.[170] In a position paper drafted by the *Europabüro der Sächsischen Kommunen* in 2001, the argument in favour of maintaining support is bolstered by the authors dismissing out of hand the possibility of neighbouring regions in Poland and the Czech Republic attaining the status of Objective 1 regions only to have Saxony lose that self-same status.[171]

The position paper drawn up by the Berlin Senate features a strange duality. Within one and the same sentence, a plea is entered for focusing EU support on the neediest regions and the most urgent problems, yet at the same time the success of the EU-15 regions to date should not be jeopardized (they should continue to be supported in some way).[172] Later on in the text, it is proposed that each member state should decide of its own free will whether the resources available under the Structural Funds should be allocated at the national or regional level and determine the projects to be supported.[173] This, however, runs counter to the focusing initially sought.

Michael Häupl, mayor of Vienna, has argued in favour of continuing support for urban areas after 2006. He has proposed, *inter alia*, changing the methodology used to determine eligibility for support. Instead of calculations based on GDP, the methodology should draw on disposable income per capita, since that reflects the capital cities' real income situation much better. The figure is much lower than the assessment using GDP data. Mr. Häupl has also demanded that urban populations should benefit more from Objective 2 funding than at present. Currently only 2% of the urban population benefits from Objective 2 projects; this proportion should be raised to 5%.[174] The position paper prepared by the German Association of Cities (*Deutscher Städtetag*) stresses that

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[169] Austrian Minister of Economic Affairs, Martin Bartenstein, as cited in *Der Standard*, 2 February 2004.

[170] Consultations in the Austrian Federal Economic Chamber (WKO).

[171] Europabüro (2001).

[172] Berlin (2002), p. 1.

[173] Berlin (2002), p. 2.

[174] Häupl (2003).

metropolitan areas in Europe have to cope with very specific problems; hence, they should not be excluded from Structural Policy support after enlargement.[175]

Administrative bottlenecks are an important topic in both countries. In most of the German position papers, a call is made for help in simplifying the administrative procedures related to the disbursement of transfers; reference is made to the delays (often amounting to two years) in the pre-enlargement period. Austria has played an active role in elaborating the technical details of the Commission's proposal for the next financial perspective. As some of the negotiating experts are the very same people who have been involved in the day-to-day management of the allocation of EU transfers in Austria, it was possible to introduce into the discussion the valuable know-how they had accumulated over the current financial framework.[176]

As mentioned above, the Austrian government's position is that cuts in EU support to the business sector would be justified. Clearly, the WKO, the body representing Austrian business, is of quite a different opinion on the issue. The WKO urges the provision of EU support not only from the Cohesion segment, but also from Competitiveness expenditures, especially for small and medium enterprises.[177] The WKO argues that the Burgenland (the only Objective 1 region in Austria in the current financial perspective) should be financed from the Convergence segment in 2007-2013, and not from the Regional competitiveness segment. The latter places especial emphasis on innovations, whereas in Burgenland tourism is the branch most likely to benefit from EU support.

With regard to the smaller EU budget called for by the six net payer countries, including Austria, the WKO supports focusing Cohesion transfers on the new member states.[178] Nevertheless, the WKO requests that EU support be continued for prosperous member states within the Structural Policy framework; it stresses that phasing-out from both the current Objective 1 and Objective 2 support scheme must ensue under generous conditions.[179] The WKO also proposes extending the N+2 years rule to N+3 years because, in the field of cross-boarder co-operation, more time is needed for project planning and co-ordination.[180]

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[175] Deutscher Städtetag (2003), p. 1.

[176] Consultations in the Austrian Federal Chancellery.

[177] Die Finanzielle Vorausschau (2005), p. 6.

[178] Die Finanzielle Vorausschau (2005), p. 8.

[179] Strukturfonds (2003), p. 2.

[180] WKO working document, August 2004, pp. 1-2.

General correction mechanism

As for the introduction of a general correction mechanism proposed by the Commission, Germany's objective situation would appear to be neutral. As can be seen in Table 4.13, Germany's net position over the period 2008-2013 will deteriorate, by 0.1 to 0.16 percentage points, compared to the average (-0.38% of GNI) in 2000-2003 in any case: regardless whether there be no correction, the present UK correction or a correction mechanism based on the threshold level of -0.35% of the GNI proposed by the Commission. That notwithstanding, the deterioration in Germany's position would be least, 0.1 percentage point, were the Commission's proposal to be implemented. Among the various alternative calculations based on lower and higher thresholds, it turns out that the lower the threshold triggering the correction mechanism, the better Germany's net financial position would be. The official German position is that the elaboration and the implementation of a general correction mechanism are currently not among Germany's priorities.[181]

Compared to the current system with the UK rebate and the rebate on the UK rebate, in which Austria had a net financial position of -0.14% of its GNI in 2002-2003, the country's net position would substantially deteriorate in the financial framework for 2007-2013 as proposed by the Commission. Austria's net financial position would deteriorate to the level where it was in 1997-2001, ranging from -0.33% to -0.42% of the country's GNP (see Table 6.1). Nevertheless, the differences are tiny among the various solutions for addressing the member states' excessive negative financial positions (see Table 4.13). Austria's net position would deteriorate marginally if the general correction mechanism were to be introduced. Compared to a situation where the current system with the UK rebate were to persist throughout the period 2008-2013, Austria's average net financial position would deteriorate by 0.03 percentage points of the GNI (-0.41% vs. -0.38%). Although this difference seems to be well within a margin for statistical error, and even though it is accepted throughout the EU that gains from membership are not equal to the net financial position, Austria rejects the idea of a general correction mechanism.

It is worth mentioning the Austrian Federal Economic Chamber's view of this issue. The WKO sees no justification for according exceptional treatment to individual member states in the enlarged EU. It supports the establishment of a fair, simple and generally accepted own resources system. Nevertheless, the EU tax proposed by the Commission should not be a subject of discussion in the next round of negotiations on the next financial perspective.[182]

[181] Szemlér (2004), p. 47.

[182] Die Finanzielle Vorausschau (2005), p. 8.

7 New member states' initial experience with the absorption of resources from the EU budget

Contrary to previous enlargements, the countries that joined in May 2004 had a more than a decade-long record of absorbing EU resources prior to accession. In the case of Hungary and Poland, this dates back to 1989 when the first line of economic assistance for the emerging post-communist democracies was set up under the name 'PHARE'[183]. The PHARE scheme was subsequently extended to other post-communist countries. In 1999, as negotiations on enlargement progressed, the instrument of pre-accession aid was set up with two conduits: ISPA for environment- and transport-related projects and SAPARD for agriculture.[184] Transfers from ISPA were authorized by the Commission; financial resources from SAPARD were managed by accredited national administrations in the candidate countries. Part of the pre-accession aid was devoted to institution building, with emphasis on securing a flawless start to the receipt of substantially increasing EU resources in each country after accession. Ongoing projects were continued after enlargement and the programmes concerned will be integrated into the Structural Funds and rural development facilities.

Each year in its Regular Reports, the Commission assessed the maturity of the candidate countries for full membership, including the institutional system receiving transfers from the EU. Those reports provided very detailed analyses of progress to date, the building blocks that the institutional system still lacked or the incomplete legal background; they prescribed a detailed roadmap for measures to be implemented.

Even before accession, each candidate country elaborated a detailed National Development Plan for the first three years of membership (2004-2006) which described the principles and procedures they envisaged for allocating EU transfers in the national economy in line with specific objectives, development priorities and operational programmes.

All those preparatory activities can be seen as a sort of guarantee for the successful absorption of incoming EU transfers. Nevertheless, caution is recommended. Apart from Cohesion Fund transfers (one third of EU co-financed transfers for structural actions), i.e. a limited number of large projects financially managed by the national central government or its agencies, other transfers will be aimed at a great number of recipients, most of whom have little or no experience of handling EU co-financed projects. In previous enlargements, the newcomers' absorption record was rather poor in the first years of membership. Nevertheless, it is debatable whether comparison with the current enlargement is justified

[183] Pologne, Hongrie Aide a la Reconstruction économique.

[184] Instrument Structurel de Pré-Adhésion; Special Accession Programme for Agriculture and Rural Development.

as the acceding countries' preparedness had never been so carefully monitored as in the case of the 2004 enlargement.

The time that has passed since 1 May 2004 is too short to obtain reliable evidence on the new members' experiences of absorption. Only at the end of 2005 will it be possible to make an initial assessment.

Although most of the discussion on the 2007-2013 financial perspective will take place in 2005 and agreement in principle might be achieved by June 2005, the possibility of the negotiations not reaching a decisive stage until the first half of 2006 cannot be excluded. This means that the first evaluation of the new members' absorption capacity may still play an important role in the final stage of negotiations on the future budget.

If the experience is overwhelmingly positive or at least acceptable in most of the new member states, no additional element will enter the discussion. However, should it transpire that all or most of the new members have encountered serious difficulties in drawing down available resources from the EU budget and are thus far behind their own projections for absorption, the discussion on the new financial perspective might take a decisive turn for the worse, from the new member states' point of view. Those calling for a smaller budget and/or less spending on Cohesion would receive important arguments for the discussion.

In the Commission's present projections, 4% of the GDP constitutes the total ceiling that can be allocated to each member state within the framework of structural policies (probably including the transfers for rural development under Heading 2). At least one new member state, Hungary, insists that this ceiling should also be fixed as the minimum level; in other words, Cohesion transfers should add up to no less than 4% of GDP. Using a modification of the Berlin methodology to calculate Structural Policy transfers for individual new members (except for Cyprus and Slovenia), transfers would be substantially higher without the 4% GDP proportional ceiling. In the more prosperous 'old' member states only part of the population lives in regions eligible for support, whereas the 4% ceiling is calculated for the national economy as a whole. As a result, the Cohesion resources available to 'old' member states would be ample – even below the 4% ceiling – as they would apply to certain regions of the country where only part of the total population lives. Per capita support in those regions is thus not effectively constrained by the 4% ceiling. On the other hand, in most new member states, and especially the poorest, the deviation from the EU average level of development is considerable. Although the sum calculated using the new Berlin methodology is high, the 4% ceiling effectively limits the value of transfers that may be allocated. The Baltic States, Slovakia, Poland, Bulgaria and Romania will lose more than half of the support theoretically available to them on account of the 4% ceiling.[185]

[185] Consultations at the National Development Office, Hungary.

Under those circumstances, it is understandable that some of the new members insist on receiving guaranteed amounts of Structural Policy support equivalent to at least to 4% of the GDP. It is also understandable, however, that a weak or disastrous absorption record in the first year of membership will not be conducive to reaching that goal. In that case, any submission in favour of securing support equivalent to 4% of the new members' GDP cannot be supported by references to the first year's absorption experience. The possibility of proposals being put forward in favour of rearranging resources allocation across member states to the detriment of the new members cannot be excluded, on the grounds that it would avoid a waste of resources that had been allocated to, but not drawn down by, new member states.

For many years, member states' underutilization of resources has been a problem in the EU.[186] This could become even graver, were the new members to display a significantly worse record in the initial stage of their membership than had been hoped for. That situation would call for appropriate reforms that would have to be introduced by 2007, the first year of the next financial perspective.

8 Global impact

Although the extent of resource redistribution across member states in the EU is quite modest, accounting for approximately 1% of the EU GNI, it is a feature unique to European integration. None of the other major economic blocs in the world practices redistribution across member states to any significant degree or puts it on its agenda.

The first consequence of the very existence of redistribution across member states has been to make potential membership in the EU increasingly attractive to non-member states in Europe whose level of development is below the EU average. Apart from the traditional benefits offered by belonging to an economic integration bloc, an accelerated catching-up process supported by transfers from the EU budget plays an important role in potential members´ assessment of EU membership. It is also clear that the greater the emphasis given to the redistributive character of the budget and the less the attention paid to its allocative character, new states will be all the more inclined to seek entry. This also works the other way round for the few wealthy European states that have not joined – Switzerland, Norway and Iceland. Those countries are obviously discouraged by the prospect of a negative net financial position on joining, although other reasons for rejecting EU membership may well play at least as important a role, if not much more so.

The upcoming financial framework (2007-2013) bears special significance in this context. As discussed earlier, prior to enlargement, the EU-15 constituted a club of wealthy members,

[186] Council of the European Union (2004a), pp. 53-55.

with a few that were somewhat less wealthy. This situation has changed since enlargement in May 2004 with the entry of ten new members; it will shift in the same direction once again in 2007 when Bulgaria and Romania join the EU.[187] The 2000-2006 budget has already provided for the integration of the new members in the period 2004-2006; those years, however, still constitute the 'phasing-in' period for both Structural Policy transfers and direct payments to farmers in the new member states. Moreover, all the bargaining over the new members' contributions to, and transfers from, the EU budget was completed prior to their accession, at a time when their bargaining position was correspondingly weak. This means that only the upcoming financial perspective will reveal the extent to which the new members are able to secure for themselves resources from the common budget.

The new members' experience of the absorption of additional developmental resources from the EU budget will be almost as important as the amount of the resources itself. If the stringent EU rules governing the application, implementation and control of resources coupled with the inability of one or more new members to set up the appropriate legal and institutional background for their successful absorption were to indicate that the new members' convergence was not supported by transfers from the EU (or only marginally so), membership might prove less attractive to potential new members. On the other hand, any obvious acceleration of convergence on the part of all or most new members would greatly strengthen potential new members' desire to seek entry into the EU.

Convergence to the EU average level of development supported by transfers from the EU budget can only be seen as a success if the process proves sustainable from the net payers' point of view. This implies not only tolerable net financial positions, but also, in a much broader context, an acceptable macro economic performance on the part of the economies concerned. Even though the chance of macro-economic and social problems persisting in the old EU may or may not be related to enlargement, there is every danger that the causes of weak macroeconomic performance will be seen in part to have something to do with enlargement. That may well hamper the current members' readiness to permit further enlargements.

The possibility of a 'happy and enlarged' EU displaying accelerated convergence among the less developed members and improved growth performance in the wealthy members would appreciably strengthen the intentions of both the current and potential candidate countries intention to join and heighten the incumbents' readiness to let new members in. If that is the case, the circle of potential candidates may extend considerably to encompass more former Soviet states, the Maghreb and countries in the Middle East.

187 The prospects for the next decades are similar in this respect. Candidate countries on the 'short' waiting list (Croatia, Turkey and Macedonia), countries which have longer-term prospects of membership (Bosnia Herzegovina, Albania, Serbia and Montenegro) as well as the most recent aspirant (Ukraine) predict a decreasing average per capita EU GDP and growing differences in levels of development across member states over the next two decades.

The lessons learnt from the new members' absorption of EU transfers will most probably have a major impact on the modalities of EU external aid programmes. Even if the current new members are, as a rule, much more developed than the typical recipients of international aid, a thorough analysis of successful and failed components of transfers for the new members (especially for the less developed members) may contribute to improving the quality of the external aid programmes offered by the EU.

Major difficulties in the enlarged EU which are related, in some way or other, to redistribution across member states redistribution, will provide all international economic blocs with good reasons for avoiding intra-bloc redistribution. This holds true the other way round, as well. A 'happy and enlarged' EU may pose a real challenge to both the emerging Free Trade Area of the Americas (FTAA) and ASEAN in Asia. Both of these huge blocks are currently at an earlier stage of economic integration than the EU; furthermore, they do not have intra-bloc resource redistribution on their agendas. They are, however, similar in composition to the enlarged EU on account of the considerable differences between their members due to the varying levels of economic development.[188] The win-win situation in the enlarged EU may encourage the less developed members of those blocs to raise the issue of redistribution. The issue cannot be simply dismissed by the wealthier members, should the enlarged EU turn out to be a success.

Finally, in the longer term, the main features of the conditionality elaborated for the EU accession may be conducive to global aid programmes. Aid recipients that meet the political criteria set for democracy and the economic criteria set for a functioning market economy (or incontrovertible progress in that direction) may well qualify for a substantial increase in aid compared to those countries that are either unwilling or unable to fulfil the respective requirements. This division of aid recipients into compliant and non-compliant states could greatly improve the overall efficiency of international aid programmes, while accelerating the modernization of society and economies in the third world.

9 Conclusions

- Size matters

Reducing the extent of the EU budget by about a fifth bears serious implications. Even if the 'lawnmower' method is used to cut expenditures in equal proportions, it will not be possible to achieve the objective of fostering the convergence of the less developed (mostly new) member states. Either the new members receive far fewer resources than the cohesion countries received in the pre-enlargement EU or the less developed or otherwise problematic regions in the old member states forgo nearly all support. Furthermore,

[188] See the World Development Indicators, http://www.worldbank.org/data/onlinedatabases/onlinedatabases.html.

ambitious plans to accelerate modernization so as to attain the Lisbon targets will have to be downsized as well.

- Reforms without money are painful

As the radical reform scenarios More competitiveness and More cohesion show, a resolute step to promote the provision of public goods EU-wide or accelerate the catching-up process of the new member states with a budget one fifth smaller than the Commission's proposal would in the ultimate analysis put an end to funding in the non-preferred areas. With a 1% EU GNI budget, more competitiveness would mean no cohesion, while more cohesion would mean no competitiveness.

- You cannot run with the hare and hunt with the hounds

Major net-payer countries will have to accept that they cannot enjoy the benefits of a lower budget without suffering from a meltdown of resources for the less developed or otherwise problematic regions within their own borders Should they insist on continuing those programmes, the residual resources for the new members would be so meagre that one can hardly imagine consensus being reached on the new EU budget.

- Cuts may obstruct a compromise on sharing the resources under Cohesion

Member states' transfers under the sub-heading Cohesion are capped at 4% of the recipient country's GDP. If the Commission's original plans are realized and the underlying assumption about the Cohesion resources available being divided equally among the old and new members holds true, eight of the twelve new members may receive 3% to 4% of their GDP each year over the period 2007-2013. Of the most advanced new member states, the Czech Republic and Malta may receive 2% to 3% of their GDP, while Slovenia and Cyprus may obtain about 2%. Should the six net-payer countries succeed in getting the EU budget cut to 1% of the EU GNI, the consequences will be considerable, unless expenditures under Cohesion are declared exempt from the cuts. It would be practically impossible to strike a compromise without seriously frustrating one of the two groups (old and new members). As the approval of a budget calls for unanimity, this may well lead to a serious crisis in the Union over the next two years.

- Fundamental reforms of the EU budget need time and a systemic approach

The 2007-2013 financial framework will most probably perpetuate the unfavourable tradition of last minute compromises. It is somewhat unlikely that well designed EU budgetary reforms will emerge under serious time pressure. It would thus be expedient to hold a convention in 2009 (similar to the one which worked on the EU constitution) that would set about elaborating fundamental reforms based on a systemic approach. In that year, the initial impact of the upcoming financial perspectives will already be making itself felt, yet there would still be time enough to design a completely new budgetary construct for the period beyond 2013.

- The EU and German budgets have a troubled relationship

Since the Commission's proposal relating to the general correction mechanism for excessive negative net financial positions failed to meet with a positive reception among most member states, a potentially important built-in stabilizing factor drops out of the compromise-seeking game. Discussion seems to be confined to debating such issues as the size of the budget or the extent and location of any cuts (in the Commission's proposed expenditures). With regard to the number of participants and the diverse interests, a systemic approach towards individual member states' net financial positions, something that is currently missing, may lead to a stalemate in negotiations. In the search for a compromise on the size of the next EU budget, Germany's position is of paramount importance. The Stability and Growth Pact prescribes the observance of a maximum 3% budget deficit/GDP ratio in any member state. Featuring as the main financial pillar of the EU budget, Germany has been struggling with its own excessive deficit for years, while its net financial contribution to the EU budget amounted to more than 0.5% of its GNP in 1997-2000 and 0.38% of its GNP/GNI in 2001-2003. It is very difficult to imagine a flexible German approach to the EU budget without the Stability and Growth Pact rules being relaxed in some way.

- The global impact of a sound compromise in the EU budget and the successful integration of new members

The period 2007-2013 will be of decisive importance to the future of the European Union. Those seven years will demonstrate whether the Union is a viable proposition despite the far greater differences in the levels of development across member states than those prevailing prior to enlargement in 2004. A successful conclusion of the budget negotiations for that period is essential, in addition to being proof of the Union's viability. New member states will have to show that the additional resources they receive from the EU budget are utilized properly. Only satisfactory absorption capacity on the part of the beneficiary member states and a demonstrably positive impact on the economy will justify the additional burden imposed on net payer member states in the enlarged EU. Foul compromises in the negotiations on the upcoming EU budget, a miserable absorption record on the part of the new members and a lack of additional dynamism in the EU would put paid to any further enlargement. On the other hand, however, a 'happy' EU with satisfied old and new members, an impeccable absorption record among its new members and an improved growth performance, especially in the old member states, would open up the gates to further enlargement. A demonstrably 'happy' EU would also take on global importance as the regional economic blocs in the Americas and Asia could hardly shy away from the evidence of the benefits it provides.

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Appendix

Methodological remarks

The Appendix Tables present estimations for the EU-25 and EU-27 GDP (at official exchange rate) and the EU-25 and EU-27 GNI (at PPS) for the years 2007-2013, all at 2004 prices. Starting point for the estimations were New Cronos data up to 2004. The annual real growth rates applied vary according to the relative level of development of the individual member states, based on the assumption that member states at a lower relative level of development are going through a period of more rapid economic growth than the more developed countries. A real growth rate of GDP and GNI, respectively, was estimated on the basis of each member state's relative position to the EU-25 or EU-27 average, respectively. In the estimation, those member states below 60% of the EU-27 average per capita GNI at PPS will have an annual growth rate of 5%, those between 60 and 80% a growth rate of 4%; those between 80 and 100% a growth rate of 3% and the member states surpassing the EU-27 average a growth rate of 2%. Any member state exceeding a development level threshold (60, 80 and 100% of EU-27 average) switches over to the appropriate annual growth rate from that year on.

Table A1

EU-25: GDP and GNI in 2004

	Gross Domestic Product (GDP) of the EU-25, 2004				Gross National Income (GNI) of the EU-25, 2004				
	Eurostat New Cronos Millions of euro	Eurostat New Cronos Millions of PPS	calculated Euro per cap	calculated PPS per cap	Eurostat New Cronos Millions of euro	Eurostat New Cronos Millions of PPS	calculated Euro per cap	calculated PPS per cap	New Cronos 2003 Population
Austria	232969	217912	28835	26971	229483	215560	28403	26680	8079.5
Belgium	281764	270322	27155	26052	286955	276468	27655	26644	10376.3
Cyprus	12103	13192	16776	18286	12146	13295	16837	18429	721.4
Czech Republic	86497	170194	8474	16674	81925	161880	8026	15859	10207.2
Denmark	195708	148148	36305	27483	193195	146865	35839	27245	5390.6
Estonia	8831	14524	6525	10731	8212	13563	6067	10021	1353.5
Finland	147347	127217	28264	24402	147292	127708	28253	24497	5213.3
France	1625173	1560505	27194	26112	1627457	1569314	27232	26259	59762.3
Germany	2190484	1972984	26538	23903	2177165	1969289	26377	23858	82540.9
Greece	164561	198806	14916	18020	164561	199647	14916	18096	11032.7
Hungary	80862	138737	7983	13697	76826	132370	7585	13069	10128.8
Ireland	146135	119372	36588	29887	122344	100361	30631	25127	3994.1
Italy	1355279	1368388	23611	23839	1343805	1362547	23411	23737	57401.4
Latvia	10992	23120	4728	9944	10973	23177	4720	9969	2325
Lithuania	17588	37163	5091	10757	17146	36384	4963	10531	3454.9
Luxembourg	25473	21630	56657	48109	22494	19181	50031	42662	449.6
Malta	4521	6425	11346	16123	4512	6439	11323	16158	398.5
Netherlands	464790	426968	28646	26315	463146	427259	28545	26333	16225.1
Poland	193288	403165	5059	10552	189472	396878	4959	10388	38206.1
Portugal	134237	170659	12853	16341	132452	169102	12682	16192	10443.7
Slovak Republic	32369	61918	6016	11509	32009	61489	5950	11429	5380
Slovenia	25989	34851	13021	17461	25967	34969	13010	17520	1995.9
Spain	793085	868338	19424	21267	784151	862191	19205	21116	40830.3
Sweden	278773	230269	31120	25706	278307	230857	31068	25771	8957.9
United Kingdom	1731806	1591452	29144	26782	1765326	1629122	29708	27415	59423.4
EU-25	**10240623**	**10196255**	**22542**	**22444**	**10197320**	**10185913**	**22447**	**22421**	**454292.4**

Table A2

EU-27: GDP and GNI in 2004

	Gross Domestic Product (GDP) of the EU-27, 2004				Gross National Income (GNI) of the EU-27, 2004				
	Eurostat New Cronos Millions of euro	Eurostat New Cronos Millions of PPS	calculated Euro per cap	calculated PPS per cap	Eurostat New Cronos Millions of euro	Eurostat New Cronos Millions of PPS	calculated Euro per cap	calculated PPS per cap	New Cronos 2003 Population
Austria	232969	217905	28835	26970	229483	215554	28403	26679	8079.5
Belgium	281764	270314	27155	26051	286955	276461	27655	26643	10376.3
Cyprus	12445	13564	17252	18802	12146	13294	16837	18428	721.4
Czech Republic	86497	170143	8474	16669	81925	161833	8026	15855	10207.2
Denmark	195708	148143	36305	27482	193195	146861	35839	27244	5390.6
Estonia	8831	14524	6525	10730	8212	13562	6067	10020	1353.5
Finland	147347	127213	28264	24402	147292	127704	28253	24496	5213.3
France	1625173	1560458	27194	26111	1627457	1569272	27232	26259	59762.3
Germany	2190484	1972924	26538	23902	2177165	1969236	26377	23858	82540.9
Greece	164561	198799	14916	18019	164561	199642	14916	18095	11032.7
Hungary	80862	138732	7983	13697	76826	132367	7585	13068	10128.8
Ireland	146135	119368	36588	29886	122344	100358	30631	25127	3994.1
Italy	1355279	1368347	23611	23838	1343805	1362510	23411	23737	57401.4
Latvia	10992	23119	4728	9944	10973	23176	4720	9968	2325.0
Lithuania	17588	37162	5091	10756	17146	36383	4963	10531	3454.9
Luxembourg	25473	21629	56657	48107	22494	19181	50031	42661	449.6
Malta	4521	6425	11346	16123	4512	6439	11323	16158	398.5
Netherlands	464790	426955	28646	26315	463146	427248	28545	26333	16225.1
Poland	193288	403152	5059	10552	189472	396868	4959	10388	38206.1
Portugal	134237	170654	12853	16340	132452	169097	12682	16191	10443.7
Slovak Republic	32369	61916	6016	11509	32009	61488	5950	11429	5380.0
Slovenia	25989	34850	13021	17461	25967	34968	13010	17520	1995.9
Spain	793085	868311	19424	21266	784151	862168	19205	21116	40830.3
Sweden	278724	230243	31115	25703	278659	231165	31108	25806	8957.9
United Kingdom	1731806	1591403	29144	26781	1765328	1629080	29708	27415	59423.4
Bulgaria	19620	54121	2508	6919	19329	53544	2471	6845	7822.6
Romania	55925	152769	2572	7026	*55925*	*152769*	*2572*	*7026*	21744.4
EU-27	**10316462**	**10403145**	**21321**	**21500**	**10272928**	**10392226**	**21231**	**21478**	**483859.4**

Table A3

EU-25: GDP at exchange rate, 2004-2013

in millions of EUR

	2004	2005	2006	2007	2008	2009	2010	1011	2012	2013
Austria	232969	237628	242381	247228	252173	257216	262360	267608	272960	278419
Belgium	281764	287399	293147	299010	304990	311090	317312	323658	330131	336734
Cyprus	12103	12587	13090	13614	14158	14725	15166	15621	16090	16573
Czech Republic	86497	90821	95363	100131	105137	110394	115914	121709	127795	134185
Denmark	195708	199622	203615	207687	211841	216077	220399	224807	229303	233889
Estonia	8831	9273	9737	10223	10735	11271	11835	12427	13048	13700
Finland	147347	150293	153299	156365	159493	162682	165936	169255	172640	176093
France	1625173	1657676	1690830	1724646	1759139	1794322	1830209	1866813	1904149	1942232
Germany	2190484	2234293	2278979	2324559	2371050	2418471	2466840	2516177	2566501	2617831
Greece	164561	171143	177989	185109	192513	200214	208222	216551	225213	234222
Hungary	80862	84905	89151	93608	98289	103203	108363	113781	119470	125444
Ireland	146135	149058	152039	155080	158181	161345	164572	167863	171220	174645
Italy	1355279	1382384	1410032	1438233	1466997	1496337	1526264	1556789	1587925	1619684
Latvia	10992	11542	12119	12725	13361	14029	14731	15467	16241	17053
Lithuania	17588	18467	19390	20360	21378	22447	23569	24748	25985	27284
Luxembourg	25473	25982	26502	27032	27573	28124	28687	29260	29846	30442
Malta	4521	4747	4985	5234	5496	5771	6059	6362	6617	6881
Netherlands	464790	474086	483568	493239	503104	513166	523429	533898	544576	555467
Poland	193288	202953	213100	223755	234943	246690	259025	271976	285575	299853
Portugal	134237	140949	147997	153916	160073	166476	173135	180060	187263	194753
Slovak Republic	32369	33987	35686	37471	39344	41311	43377	45546	47823	50214
Slovenia	25989	27289	28653	29799	30991	32231	33520	34861	36256	37706
Spain	793085	816878	841384	866626	892624	919403	946985	975395	1004656	1034796
Sweden	278773	284348	290035	295836	301753	307788	313943	320222	326627	333159
United Kingdom	1731806	1766442	1801771	1837807	1874563	1912054	1950295	1989301	2029087	2069669
EU-25	**10240623**	**10474754**	**10714841**	**10959292**	**11209898**	**11466837**	**11730147**	**12000156**	**12276995**	**12560928**

EU-25: GDP per capita at exchange rate, 2004-2013

in EUR

	2004	2005	2006	2007	2008	2009	2010	1011	2012	2013
Austria	28835	29411	29999	30599	31211	31836	32472	33122	33784	34460
Belgium	27155	27698	28252	28817	29393	29981	30580	31192	31816	32452
Cyprus	16776	17447	18145	18871	19626	20411	21023	21654	22304	22973
Czech Republic	8474	8898	9343	9810	10300	10815	11356	11924	12520	13146
Denmark	36305	37032	37772	38528	39298	40084	40886	41704	42538	43388
Estonia	6525	6851	7194	7553	7931	8328	8744	9181	9640	10122
Finland	28264	28829	29405	29994	30593	31205	31829	32466	33115	33778
France	27194	27738	28293	28858	29436	30024	30625	31237	31862	32499
Germany	26538	27069	27610	28163	28726	29300	29886	30484	31094	31716
Greece	14916	15512	16133	16778	17449	18147	18873	19628	20413	21230
Hungary	7983	8383	8802	9242	9704	10189	10699	11233	11795	12385
Ireland	36588	37319	38066	38827	39604	40396	41204	42028	42868	43726
Italy	23611	24083	24564	25056	25557	26068	26589	27121	27664	28217
Latvia	4728	4964	5212	5473	5747	6034	6336	6653	6985	7334
Lithuania	5091	5345	5612	5893	6188	6497	6822	7163	7521	7897
Luxembourg	56657	57790	58946	60125	61327	62554	63805	65081	66382	67710
Malta	11346	11913	12509	13134	13791	14481	15205	15965	16604	17268
Netherlands	28646	29219	29804	30400	31008	31628	32260	32906	33564	34235
Poland	5059	5312	5578	5857	6149	6457	6780	7119	7475	7848
Portugal	12853	13496	14171	14738	15327	15940	16578	17241	17931	18648
Slovak Republic	6016	6317	6633	6965	7313	7679	8063	8466	8889	9333
Slovenia	13021	13672	14356	14930	15528	16149	16795	17466	18165	18892
Spain	19424	20007	20607	21225	21862	22518	23193	23889	24606	25344
Sweden	31120	31743	32378	33025	33686	34359	35047	35747	36462	37192
United Kingdom	29144	29726	30321	30927	31546	32177	32820	33477	34146	34829
EU-25	**22542**	**23057**	**23586**	**24124**	**24676**	**25241**	**25821**	**26415**	**27024**	**27649**

Table A3 contd.

Table A3 (contd.)

					shares in %, EU-25 =100					
Austria	128	128	127	127	126	126	126	125	125	125
Belgium	120	120	120	119	119	119	118	118	118	117
Cyprus	74	76	77	78	80	81	81	82	83	83
Czech Republic	38	39	40	41	42	43	44	45	46	48
Denmark	161	161	160	160	159	159	158	158	157	157
Estonia	29	30	30	31	32	33	34	35	36	37
Finland	125	125	125	124	124	124	123	123	123	122
France	121	120	120	120	119	119	119	118	118	118
Germany	118	117	117	117	116	116	116	115	115	115
Greece	66	67	68	70	71	72	73	74	76	77
Hungary	35	36	37	38	39	40	41	43	44	45
Ireland	162	162	161	161	160	160	160	159	159	158
Italy	105	104	104	104	104	103	103	103	102	102
Latvia	21	22	22	23	23	24	25	25	26	27
Lithuania	23	23	24	24	25	26	26	27	28	29
Luxembourg	251	251	250	249	249	248	247	246	246	245
Malta	50	52	53	54	56	57	59	60	61	62
Netherlands	127	127	126	126	126	125	125	125	124	124
Poland	22	23	24	24	25	26	26	27	28	28
Portugal	57	59	60	61	62	63	64	65	66	67
Slovak Republic	27	27	28	29	30	30	31	32	33	34
Slovenia	58	59	61	62	63	64	65	66	67	68
Spain	86	87	87	88	89	89	90	90	91	92
Sweden	138	138	137	137	137	136	136	135	135	135
United Kingdom	129	129	129	128	128	127	127	127	126	126
EU-25	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Estimation.

Table A4

EU-27: GDP at exchange rate, 2004-2013

in millions of EUR

	2004	2005	2006	2007	2008	2009	2010	1011	2012	2013
Austria	232969	237628	242381	247228	252173	257216	262360	267608	272960	278419
Belgium	281764	287399	293147	299010	304990	311090	317312	323658	330131	336734
Cyprus	12445	12819	13203	13599	14007	14428	14860	15306	15765	16238
Czech Republic	86497	90821	95363	100131	105137	110394	115914	121709	127795	134185
Denmark	195708	199622	203615	207687	211841	216077	220399	224807	229303	233889
Estonia	8831	9273	9737	10223	10735	11271	11835	12427	13048	13700
Finland	147347	150293	153299	156365	159493	162682	165936	169255	172640	176093
France	1625173	1657676	1690830	1724646	1759139	1794322	1830209	1866813	1904149	1942232
Germany	2190484	2234293	2278979	2324559	2371050	2418471	2466840	2516177	2566501	2617831
Greece	164561	171143	177989	185109	192513	200214	208222	216551	225213	234222
Hungary	80862	84905	89151	93608	98289	103203	108363	113781	119470	125444
Ireland	146135	149058	152039	155080	158181	161345	164572	167863	171220	174645
Italy	1355279	1382384	1410032	1438233	1466997	1496337	1526264	1556789	1587925	1619684
Latvia	10992	11542	12119	12725	13361	14029	14731	15467	16241	17053
Lithuania	17588	18467	19390	20360	21378	22447	23569	24748	25985	27284
Luxembourg	25473	25982	26502	27032	27573	28124	28687	29260	29846	30442
Malta	4521	4747	4985	5234	5496	5771	6001	6241	6491	6751
Netherlands	464790	474086	483568	493239	503104	513166	523429	533898	544576	555467
Poland	193288	202953	213100	223755	234943	246690	259025	271976	285575	299853
Portugal	134237	139607	145191	150999	157039	163320	169853	176647	183713	191061
Slovak Republic	32369	33987	35686	37471	39344	41311	43377	45546	47823	50214
Slovenia	25989	27029	28110	29235	30404	31620	32885	34200	35568	36991
Spain	793085	816878	841384	866626	892624	919403	946985	975395	1004656	1034796
Sweden	278724	284298	289984	295784	301700	307734	313888	320166	326570	333101
United Kingdom	1731806	1766442	1801771	1837807	1874563	1912054	1950295	1989301	2029087	2069669
Bulgaria	19620	20601	21631	22713	23849	25041	26293	27608	28988	30438
Romania	55925	58721	61657	64740	67977	71376	74944	78692	82626	86758
EU-27	**10316462**	**10552657**	**10794843**	**11043196**	**11297898**	**11559137**	**11827049**	**12101889**	**12383865**	**12673193**

EU-27: GDP per capita at exchange rate, 2004-2013

in EUR

	2004	2005	2006	2007	2008	2009	2010	1011	2012	2013
Austria	28835	29411	29999	30599	31211	31836	32472	33122	33784	34460
Belgium	27155	27698	28252	28817	29393	29981	30580	31192	31816	32452
Cyprus	17252	17769	18302	18851	19417	19999	20599	21217	21854	22510
Czech Republic	8474	8898	9343	9810	10300	10815	11356	11924	12520	13146
Denmark	36305	37032	37772	38528	39298	40084	40886	41704	42538	43388
Estonia	6525	6851	7194	7553	7931	8328	8744	9181	9640	10122
Finland	28264	28829	29405	29994	30593	31205	31829	32466	33115	33778
France	27194	27738	28293	28858	29436	30024	30625	31237	31862	32499
Germany	26538	27069	27610	28163	28726	29300	29886	30484	31094	31716
Greece	14916	15512	16133	16778	17449	18147	18873	19628	20413	21230
Hungary	7983	8383	8802	9242	9704	10189	10699	11233	11795	12385
Ireland	36588	37319	38066	38827	39604	40396	41204	42028	42868	43726
Italy	23611	24083	24564	25056	25557	26068	26589	27121	27664	28217
Latvia	4728	4964	5212	5473	5747	6034	6336	6653	6985	7334
Lithuania	5091	5345	5612	5893	6188	6497	6822	7163	7521	7897
Luxembourg	56657	57790	58946	60125	61327	62554	63805	65081	66382	67710
Malta	11346	11913	12509	13134	13791	14481	15060	15662	16289	16940
Netherlands	28646	29219	29804	30400	31008	31628	32260	32906	33564	34235
Poland	5059	5312	5578	5857	6149	6457	6780	7119	7475	7848
Portugal	12853	13368	13902	14458	15037	15638	16264	16914	17591	18294
Slovak Republic	6016	6317	6633	6965	7313	7679	8063	8466	8889	9333
Slovenia	13021	13542	14084	14647	15233	15843	16476	17135	17821	18534
Spain	19424	20007	20607	21225	21862	22518	23193	23889	24606	25344
Sweden	31115	31737	32372	33019	33680	34353	35040	35741	36456	37185
United Kingdom	29144	29726	30321	30927	31546	32177	32820	33477	34146	34829
Bulgaria	2508	2634	2765	2904	3049	3201	3361	3529	3706	3891
Romania	2572	2701	2836	2977	3126	3282	3447	3619	3800	3990
EU-27	**21321**	**21809**	**22310**	**22823**	**23350**	**23889**	**24443**	**25011**	**25594**	**26192**

Table A4 contd.

Table A4 (contd.)

	shares in %, EU-27 =100									
Austria	135	135	134	134	134	133	133	132	132	132
Belgium	127	127	127	126	126	125	125	125	124	124
Cyprus	81	81	82	83	83	84	84	85	85	86
Czech Republic	40	41	42	43	44	45	46	48	49	50
Denmark	170	170	169	169	168	168	167	167	166	166
Estonia	31	31	32	33	34	35	36	37	38	39
Finland	133	132	132	131	131	131	130	130	129	129
France	128	127	127	126	126	126	125	125	124	124
Germany	124	124	124	123	123	123	122	122	121	121
Greece	70	71	72	74	75	76	77	78	80	81
Hungary	37	38	39	40	42	43	44	45	46	47
Ireland	172	171	171	170	170	169	169	168	167	167
Italy	111	110	110	110	109	109	109	108	108	108
Latvia	22	23	23	24	25	25	26	27	27	28
Lithuania	24	25	25	26	27	27	28	29	29	30
Luxembourg	266	265	264	263	263	262	261	260	259	259
Malta	53	55	56	58	59	61	62	63	64	65
Netherlands	134	134	134	133	133	132	132	132	131	131
Poland	24	24	25	26	26	27	28	28	29	30
Portugal	60	61	62	63	64	65	67	68	69	70
Slovak Republic	28	29	30	31	31	32	33	34	35	36
Slovenia	61	62	63	64	65	66	67	69	70	71
Spain	91	92	92	93	94	94	95	96	96	97
Sweden	146	146	145	145	144	144	143	143	142	142
United Kingdom	137	136	136	136	135	135	134	134	133	133
Bulgaria	12	12	12	13	13	13	14	14	14	15
Romania	12	12	13	13	13	14	14	14	15	15
EU-27	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Estimation.

Table A5

EU-25: GNI in PPS 2004-2013

million EUR - based

	2004	2005	2006	2007	2008	2009	2010	1011	2012	2013
Austria	215560	219871	224268	228754	233329	237995	242755	247610	252563	257614
Belgium	276468	281997	287637	293390	299258	305243	311348	317575	323926	330405
Cyprus	13295	13694	14105	14528	14964	15413	15875	16351	16842	17347
Czech Republic	161880	168356	175090	182093	189377	196952	204830	213023	221544	228191
Denmark	146865	149802	152798	155854	158971	162150	165393	168701	172075	175517
Estonia	13563	14241	14953	15701	16486	17310	18175	19084	20038	21040
Finland	127708	130262	132867	135525	138235	141000	143820	146696	149630	152623
France	1569314	1600700	1632714	1665368	1698676	1732649	1767302	1802648	1838701	1875475
Germany	1969289	2008674	2048848	2089825	2131621	2174254	2217739	2262094	2307336	2353482
Greece	199647	205637	211806	218160	224705	231446	238389	245541	252907	260494
Hungary	132370	138989	145938	151776	157847	164161	170727	177556	184658	192045
Ireland	100361	102368	104415	106504	108634	110806	113023	115283	117589	119940
Italy	1362547	1389798	1417593	1445945	1474864	1504362	1534449	1565138	1596441	1628369
Latvia	23177	24336	25553	26830	28172	29581	31060	32613	34243	35955
Lithuania	36384	38203	40113	42119	44225	46436	48758	51196	53756	56443
Luxembourg	19181	19565	19956	20355	20762	21177	21601	22033	22474	22923
Malta	6439	6697	6965	7243	7533	7834	8148	8473	8728	8989
Netherlands	427259	435804	444520	453411	462479	471729	481163	490787	500602	510614
Poland	396878	416722	437558	459436	482408	506529	531855	558448	586370	615689
Portugal	169102	175866	182900	190216	197825	205738	213968	222526	229202	236078
Slovak Republic	61489	64564	67792	71181	74741	78478	82401	86521	89982	93582
Slovenia	34969	36368	37822	38957	40126	41330	42570	43847	45162	46517
Spain	862191	888056	914698	942139	970403	999515	1029501	1060386	1092197	1124963
Sweden	230857	235474	240183	244987	249887	254884	259982	265182	270485	275895
United Kingdom	1629122	1661705	1694939	1728837	1763414	1798682	1834656	1871349	1908776	1946952
EU-25	**10185913**	**10427746**	**10676033**	**10929134**	**11188940**	**11455653**	**11729487**	**12010661**	**12296227**	**12587143**

EU-25: GNI per capita in PPS 2004-2013

EUR - based

Austria	26680	27213	27758	28313	28879	29457	30046	30647	31260	31885
Belgium	26644	27177	27721	28275	28841	29417	30006	30606	31218	31842
Cyprus	18429	18982	19552	20138	20743	21365	22006	22666	23346	24046
Czech Republic	15859	16494	17154	17840	18553	19295	20067	20870	21705	22356
Denmark	27245	27789	28345	28912	29490	30080	30682	31295	31921	32560
Estonia	10021	10522	11048	11600	12180	12789	13428	14100	14805	15545
Finland	24497	24986	25486	25996	26516	27046	27587	28139	28702	29276
France	26259	26784	27320	27867	28424	28992	29572	30164	30767	31382
Germany	23858	24336	24822	25319	25825	26342	26868	27406	27954	28513
Greece	18096	18639	19198	19774	20367	20978	21608	22256	22923	23611
Hungary	13069	13722	14408	14985	15584	16207	16856	17530	18231	18960
Ireland	25127	25630	26142	26665	27199	27743	28297	28863	29441	30029
Italy	23737	24212	24696	25190	25694	26208	26732	27267	27812	28368
Latvia	9969	10467	10990	11540	12117	12723	13359	14027	14728	15465
Lithuania	10531	11058	11611	12191	12801	13441	14113	14818	15559	16337
Luxembourg	42662	43516	44386	45274	46179	47103	48045	49006	49986	50985
Malta	16158	16805	17477	18176	18903	19659	20445	21263	21901	22558
Netherlands	26333	26860	27397	27945	28504	29074	29655	30249	30854	31471
Poland	10388	10907	11453	12025	12626	13258	13921	14617	15348	16115
Portugal	16192	16839	17513	18214	18942	19700	20488	21307	21946	22605
Slovak Republic	11429	12001	12601	13231	13892	14587	15316	16082	16725	17394
Slovenia	17520	18221	18950	19519	20104	20707	21328	21968	22627	23306
Spain	21116	21750	22402	23075	23767	24480	25214	25971	26750	27552
Sweden	25771	26287	26812	27349	27896	28454	29023	29603	30195	30799
United Kingdom	27415	27964	28523	29094	29675	30269	30874	31492	32122	32764
EU-25	**22421**	**22954**	**23500**	**24057**	**24629**	**25216**	**25819**	**26438**	**27067**	**27707**

Table A5 contd.

Table A5 (contd.)

					shares in %, EU-25 =100					
Austria	119	119	118	118	117	117	116	116	115	115
Belgium	119	118	118	118	117	117	116	116	115	115
Cyprus	82	83	83	84	84	85	85	86	86	87
Czech Republic	71	72	73	74	75	77	78	79	80	81
Denmark	122	121	121	120	120	119	119	118	118	118
Estonia	45	46	47	48	49	51	52	53	55	56
Finland	109	109	108	108	108	107	107	106	106	106
France	117	117	116	116	115	115	115	114	114	113
Germany	106	106	106	105	105	104	104	104	103	103
Greece	81	81	82	82	83	83	84	84	85	85
Hungary	58	60	61	62	63	64	65	66	67	68
Ireland	112	112	111	111	110	110	110	109	109	108
Italy	106	105	105	105	104	104	104	103	103	102
Latvia	44	46	47	48	49	50	52	53	54	56
Lithuania	47	48	49	51	52	53	55	56	57	59
Luxembourg	190	190	189	188	187	187	186	185	185	184
Malta	72	73	74	76	77	78	79	80	81	81
Netherlands	117	117	117	116	116	115	115	114	114	114
Poland	46	48	49	50	51	53	54	55	57	58
Portugal	72	73	75	76	77	78	79	81	81	82
Slovak Republic	51	52	54	55	56	58	59	61	62	63
Slovenia	78	79	81	81	82	82	83	83	84	84
Spain	94	95	95	96	96	97	98	98	99	99
Sweden	115	115	114	114	113	113	112	112	112	111
United Kingdom	122	122	121	121	120	120	120	119	119	118
EU-25	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Estimation.

Table A6

EU-27: GNI in PPS 2004-2013

million EUR - based

	2004	2005	2006	2007	2008	2009	2010	1011	2012	2013
Austria	215554	219865	224262	228748	233322	237989	242749	247604	252556	257607
Belgium	276461	281990	287630	293382	299250	305235	311340	317566	323918	330396
Cyprus	13294	13692	14103	14526	14962	15411	15873	16349	16840	17345
Czech Republic	161833	168306	175038	182040	189322	196894	204770	210913	217241	223758
Denmark	146861	149798	152794	155850	158967	162146	165389	168697	172071	175512
Estonia	13562	14241	14953	15700	16485	17309	18175	19084	20038	21040
Finland	127704	130258	132864	135521	138231	140996	143816	146692	149626	152619
France	1569272	1600657	1632671	1665324	1698630	1732603	1767255	1802600	1838652	1875425
Germany	1969236	2008621	2048793	2089769	2131565	2174196	2217680	2262034	2307274	2353420
Greece	199642	205631	211800	218154	224698	231439	238383	245534	252900	260487
Hungary	132367	137661	143168	148895	154850	161044	167486	174186	181153	188399
Ireland	100358	102365	104413	106501	108631	110804	113020	115280	117586	119937
Italy	1362510	1389761	1417556	1445907	1474825	1504321	1534408	1565096	1596398	1628326
Latvia	23176	24335	25552	26830	28171	29580	31059	32612	34242	35954
Lithuania	36383	38202	40112	42118	44224	46435	48757	51194	53754	56442
Luxembourg	19181	19564	19955	20355	20762	21177	21600	22032	22473	22922
Malta	6439	6696	6964	7243	7533	7759	7991	8231	8478	8732
Netherlands	427248	435793	444509	453399	462467	471716	481150	490773	500589	510601
Poland	396868	416711	437547	459424	482395	506515	531841	558433	586355	615672
Portugal	169097	175861	182896	190211	197820	203754	209867	216163	222648	229327
Slovak Republic	61488	64562	67790	71179	74738	78475	81614	84879	88274	91805
Slovenia	34968	36017	37098	38211	39357	40538	41754	43006	44297	45625
Spain	862168	888033	914674	942114	960956	989785	1009580	1039868	1060665	1081878
Sweden	231165	235788	240504	245314	250220	255224	260329	265535	270846	276263
United Kingdom	1629080	1661662	1694895	1728793	1763369	1798636	1834609	1871301	1908727	1946902
Bulgaria	53544	56221	59032	61984	65083	68337	71754	75342	79109	83064
Romania (GDP)	*152769*	*160408*	*168428*	*176849*	*185692*	*194976*	*204725*	*214961*	*225710*	*236995*
EU-27	**10392226**	**10642700**	**10899998**	**11164339**	**11426525**	**11703296**	**11976974**	**12265967**	**12552418**	**12846455**

GNI per capita PPS 2004-2013

EUR - based

	2004	2005	2006	2007	2008	2009	2010	1011	2012	2013
Austria	26679	27213	27757	28312	28878	29456	30045	30646	31259	31884
Belgium	26643	27176	27720	28274	28840	29417	30005	30605	31217	31841
Cyprus	18428	18980	19550	20136	20740	21363	22003	22664	23343	24044
Czech Republic	15855	16489	17149	17834	18548	19290	20061	20663	21283	21922
Denmark	27244	27789	28344	28911	29490	30079	30681	31295	31920	32559
Estonia	10020	10521	11047	11600	12180	12789	13428	14099	14804	15545
Finland	24496	24986	25486	25995	26515	27045	27586	28138	28701	29275
France	26259	26784	27319	27866	28423	28992	29571	30163	30766	31381
Germany	23858	24335	24822	25318	25824	26341	26868	27405	27953	28512
Greece	18095	18638	19197	19773	20367	20978	21607	22255	22923	23610
Hungary	13068	13591	14135	14700	15288	15900	16536	17197	17885	18600
Ireland	25127	25629	26142	26665	27198	27742	28297	28863	29440	30029
Italy	23737	24211	24695	25189	25693	26207	26731	27266	27811	28367
Latvia	9968	10467	10990	11540	12117	12722	13359	14026	14728	15464
Lithuania	10531	11057	11610	12191	12800	13440	14112	14818	15559	16337
Luxembourg	42661	43514	44385	45272	46178	47101	48044	49004	49984	50984
Malta	16158	16804	17476	18175	18902	19469	20054	20655	21275	21913
Netherlands	26333	26859	27396	27944	28503	29073	29655	30248	30853	31470
Poland	10388	10907	11452	12025	12626	13257	13920	14616	15347	16115
Portugal	16191	16839	17513	18213	18942	19510	20095	20698	21319	21958
Slovak Republic	11429	12000	12600	13230	13892	14586	15170	15777	16408	17064
Slovenia	17520	18046	18587	19145	19719	20310	20920	21547	22194	22860
Spain	21116	21749	22402	23074	23535	24241	24726	25468	25977	26497
Sweden	25806	26322	26848	27385	27933	28492	29061	29643	30235	30840
United Kingdom	27415	27963	28522	29093	29675	30268	30874	31491	32121	32763
Bulgaria	6845	7187	7546	7924	8320	8736	9173	9631	10113	10619
Romania (GDP/cap)	*7026*	*7377*	*7746*	*8133*	*8540*	*8967*	*9415*	*9886*	*10380*	*10899*
EU-27	**21478**	**21995**	**22527**	**23074**	**23615**	**24187**	**24753**	**25350**	**25942**	**26550**

Table A6 contd.

Table A6 (contd.)

	shares in %, EU-27 =100									
Austria	124	124	123	123	122	122	121	121	120	120
Belgium	124	124	123	123	122	122	121	121	120	120
Cyprus	86	86	87	87	88	88	89	89	90	91
Czech Republic	74	75	76	77	79	80	81	82	82	83
Denmark	127	126	126	125	125	124	124	123	123	123
Estonia	47	48	49	50	52	53	54	56	57	59
Finland	114	114	113	113	112	112	111	111	111	110
France	122	122	121	121	120	120	119	119	119	118
Germany	111	111	110	110	109	109	109	108	108	107
Greece	84	85	85	86	86	87	87	88	88	89
Hungary	61	62	63	64	65	66	67	68	69	70
Ireland	117	117	116	116	115	115	114	114	113	113
Italy	111	110	110	109	109	108	108	108	107	107
Latvia	46	48	49	50	51	53	54	55	57	58
Lithuania	49	50	52	53	54	56	57	58	60	62
Luxembourg	199	198	197	196	196	195	194	193	193	192
Malta	75	76	78	79	80	80	81	81	82	83
Netherlands	123	122	122	121	121	120	120	119	119	119
Poland	48	50	51	52	53	55	56	58	59	61
Portugal	75	77	78	79	80	81	81	82	82	83
Slovak Republic	53	55	56	57	59	60	61	62	63	64
Slovenia	82	82	83	83	84	84	85	85	86	86
Spain	98	99	99	100	100	100	100	100	100	100
Sweden	120	120	119	119	118	118	117	117	117	116
United Kingdom	128	127	127	126	126	125	125	124	124	123
Bulgaria	32	33	33	34	35	36	37	38	39	40
Romania (GDP/cap)	33	34	34	35	36	37	38	39	40	41
EU-27	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Estimation.

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