**The Financial Framework of the European Union, 2007-2013: New Policies? New Money?**

Alan Mayhew
Sussex European Institute
A.Mayhew@sussex.ac.uk

SEI Working Paper No 78

The **Sussex European Institute** publishes Working Papers (ISSN 1350-4649) to make research results, accounts of work-in-progress and background information available to those concerned with contemporary European issues. The Institute does not express opinions of its own; the views expressed in this publication are the responsibility of the author.

The **Sussex European Institute**, founded in Autumn 1992, is a research and graduate teaching centre of the University of Sussex, specialising in studies of contemporary Europe, particularly in the social sciences and contemporary history. The **SEI** has a developing research programme which defines Europe broadly and seeks to draw on the contributions of a range of disciplines to the understanding of contemporary Europe. The **SEI** draws on the expertise of many faculty members from the University, as well as on those of its own staff and visiting fellows. In addition, the **SEI** provides one-year MA courses in Contemporary European Studies, European Politics and European Law and Society and opportunities for MPhil and DPhil research degrees, as well as an MSc in Social Research Methods (Contemporary European Studies). SEI also runs an intensive 12-week Diploma in Contemporary European Studies.

First published in October 2004
by the **Sussex European Institute**
University of Sussex, Arts A Building
Falmer, Brighton BN1 9RG
Tel: 01273 678578
Fax: 01273 678571
E-mail: sei@sussex.ac.uk



***Ordering Details***

The price of this Working Paper is £5.00 plus postage and packing. Orders should be sent to the Sussex European Institute, University of Sussex, Falmer, Brighton BN1 9RG. Cheques should be made payable to the University of Sussex. Please add £1.00 postage per copy in Europe and £2.00 per copy elsewhere. See page 39 for a list of other working papers published by Sussex European Institute. Alternatively, **SEI** Working Papers are available from our website at: www.sei.ac.uk.

## Abstract

The medium-term financing plan of the European Union, the Financial Framework, creates upper limits on commitment and payment appropriations in the Union. These limits apply both to the overall budget and also, as far as commitments are concerned, to the individual policy headings. The Financial Framework must be agreed unanimously in the Council of Ministers.

It is not surprising therefore that the negotiation of the Financial Framework is always a long and very complex matter. The negotiation of the 2007-2013 Financial Framework is no exception. Negotiations effectively began in 2003, when the net contributors demanded that the future budget should not exceed 1% of Gross National Income. They will probably not be concluded until Spring 2006.

The debate has changed since the introduction of the common currency, as all contributions to the EU budget affect a country's ability to meet the Maastricht criteria for monetary union - and notably the limit of 3% of GDP for the government deficit. The debate is therefore characterised by budgetary prudence, even on the side of the net beneficiaries of the budget.

The current debate also includes the 10 new member states for the first time, which brings a new element to the discussions. The new members are markedly poorer than the old EU-15 and they all have ambitions to become full members of the monetary union. These characteristics lead to very particular negotiating positions across the new members, positions which are however not identical.

This working paper analyses the proposal of the Commission and the likely position to be taken by the 25 member states and suggests probable outcomes.

# The Financial Framework of the European Union, 2007-2013: new policies? new money?

## 1. Background

The medium-term financial plan of the European Union – the Financial Framework- differs from similar national government plans in that it sets mandatory limits to different classes of expenditure and to the overall level of expenditure. These limits can be modified but because the financial framework is decided by unanimity and embodied in an inter-institutional agreement, no one has a real interest in reopening it, once decided. Purely technical adjustments made necessary by a change in the assumptions on which the financial framework is based can be made by the Commission.

The current financial framework was decided at the Berlin European Council in April 1999 under the German Presidency and covers expenditure over the period 2000-2006. The next financial plan is likely to be adopted for the period 2007-2013.

The first detailed proposal for the financial framework is made by the Commission and is then discussed and decided in the Council. The Commission's proposal usually determines the structure of the debate and sometimes the outcome is very close to this proposal. It was for instance the Commission which in 1997 proposed the financial framework for the enlargement of the Union, including the idea that no direct income payments should be made to farmers in the new member states. These proposals were accepted with relatively few changes and became the financial framework 2000-2006 decided at Berlin.

The new member states were obviously not involved in the decision on the Berlin Financial Framework. They will be deeply and fully involved however in the decisions to be taken in the next two years on the financing of the Union from 2007 to 2013.

## 2. The approach

The Commission has now produced a first communication with the outline of a proposal for the next financial perspective, together with a draft Inter-Institutional Agreement.[12] These documents have already launched a wide discussion inside the Council and elsewhere. The Commission has followed this with its detailed legislative proposals, for the future of the structural funds, which were presented to the Council and Parliament in July 2004. The Council intends to adopt the new Financial Perspective by the end of 2005, though this date may slip into the following Council Presidency.[3] The procedure is therefore very similar to that followed for the agreement of the Berlin Financial Framework (2000-2006), in which the detailed Commission proposals (known as Agenda 2000) were presented by the Commission in Summer 1997 and finally agreed at the European Council in Berlin in Spring 1999.

The Commission has followed a logical approach to the construction of this medium-term financial plan. It first identifies EU policy objectives over the period to be covered by the plan. It then looks at the implementation mechanisms for these policy objectives. It finally estimates the level of expenditure required to achieve these objectives using the identified implementation mechanisms.

The policy objectives which the Commission has set are difficult to criticize in general terms. They are very similar to those identified by the six Presidencies in their Multiannual Strategic Programme:

---

[1] European Commission, Policy challenges and Budgetary means of the Enlarged Union 2007-2013, COM (2004) 101, 10/02/2004; Proposal for the renewal of the inter-institutional agreement. COM (2004) 498,

[2] It should be noted that it is assumed that Bulgaria and Romania join the Union in 2007.
[3] EU Council of Ministers: Multiannual Strategic Programme, 2004-2006 prepared by the six Presidencies (Doc 15896/03)

- Realizing the Lisbon Agenda
- Making a success of enlargement and completing the current round of accessions
- Creating an area of freedom, security and justice (JHA policy)
- Developing the Union's foreign policy

They have been strongly influenced by the 'Sapir Report', although internal resistance to key elements of this report means that the recommendations of the report are only partially followed.[4] This report suggests that the resources of the Union budget should be employed to achieve the objective of raising the growth rate of the European economy through investment in physical and human capital instead of supporting 'old' sectors like agriculture. Structural funds should be concentrated on the poorest areas while most agricultural expenditure could be renationalized. The Commission has adopted the first part of this recommendation while maintaining centralized expenditure on agriculture and expanding structural assistance well beyond the poorest member states. This reflects both the decision of the European Council taken at Brussels in October 2003 on agriculture and resistance within the Commission on the concentration of structural funds.

While the objectives are identified and explained, the implementation mechanisms are less clearly described. The Commission communication relies rather heavily on statements justifying Union expenditure, which should be subject to verification.[5] It is not at all clear that the objectives can best be achieved through spending at the Union level rather than at national or sub-national level. This is not only the case of agriculture and the structural funds as discussed in the Sapir Report but also in areas such as the provision of 'an adequate level of basic services of general interest' and 'fostering European culture and diversity' – it is indeed interesting to note that centralized spending is necessary to promote cultural diversity!

---

[4] Sapir et al.: An Agenda for a Growing Europe, Report of an Independent High-Level Study Group, July 2003

[5] 'The EU level is the most appropriate place to successfully enhance the quality of industrial relations and promote social dialogue as forseen in the Treaty' or 'Citizens look to the EU for protection against large-scale disasters' are two examples.

This lack of specificity about implementation mechanisms weighs particularly heavily on the proposed significant increase in spending on research and development. It has not been established that Community spending on research in the past has been more efficient and effective than public sector spending at the national level. The Commission communication lists several priority research areas with only very vague statements about how the EU finance will be distributed and managed. The detail will be considered later, but a very clear idea of the future management of research funds will be needed to justify the levels of increase suggested by the Commission.

The paper does however devote a chapter to 'ensuring objectives are met: instruments and governance'. A 'roadmap' linking objectives, instruments and performance indicators is proposed as a management tool. This is a semi log-frame approach, which would also consider the effective integration of member state and Union resources to reach agreed objectives. The Commission considers also the simplification of budgetary implementation. 'One instrument per policy area, one fund per programme' is how the Commission summarizes its ideas. Although this will prove too much of a simplification, it is moving in the right direction. It also considers alternatives to in-house management of programmes, which is again an important development. However for some of the spending priorities, notably on research and development, inter-governmental arrangements, including non-member states, totally outside the EU budget might be considered and might well be more efficient as such arrangements could lead to a reduction in the levels of management involved and therefore of costs.

The Commission proposes the establishment of several new funds, some of them consolidating existing funds. A 'Growth Adjustment Fund' is proposed which would be used to undertake fine adjustments in the Lisbon process, where objectives are not being met or when unexpected shocks occur in the international economic environment. This is likely to become a first objective for cutting by the net contributors. On the other hand the consolidation of PHARE, ISPA and

SAPARD into one pre-accession instrument seems eminently sensible. The creation of a New Neighbourhood Instrument to focus on the development of the external border regions around the Union has been trailed by an earlier Commission paper and enjoys the support of most of the new Member States.[6]

Finally the Commission sensibly proposes the integration of the Union's development aid budget into the overall Union budget. The intention to use the development aid budget as part of the Union's foreign policy (one of the proposals of the Convention on the Future of Europe) may however be contentious.

## 3. The overall financial volume

In many minds the crucial debate is whether to support a 'large' budget or a 'small' budget.

This question of the overall level of the budget can be approached from a theoretical point of view – what level of centralized spending is required to ensure that political and economic integration of the Union progresses. It can also be considered from a purely pragmatic approach – how little financing is required to ensure that the policies which have been decided can be implemented, when done so in the most efficient way.

The MacDougall Report highlighted the theoretical arguments in 1977 in the context of the sustainability of a monetary union.[7] A substantial increase in centralized funding would be required to deal with asymmetric shocks in EMU. This report had a lasting impact on some opinion in the Union, leading to ambitions to increase the size of the Union budget considerably.

---

[6] European Commission: Paving the way for a New Neighbourhood Instrument, COM (2003) 393, July 2003

[7] European Commission (1977) Report of the Study Group on the Role of Public Finance in European Integration (MacDougall Report).

Subsequent work on monetary union suggested that EMU could be successful with far lower central budgets, as long as there was a degree of flexibility in national fiscal policies. The Stability and Growth Pact (SGP) restricted this flexibility to prevent irresponsible national fiscal policy. Doubt about the efficiency of transfers to correct for asymmetric shocks has also come from the experience with temporary regional transfers to cope with such shocks. This suggests that there is a considerable danger that such subsidies are considered to be an alternative to adjustment policies in the affected region, leading to their conversion into permanent subsidies.[8]

On the pragmatic side, there was always a tendency for net contributors to the budget to argue for restrictive budgets, while net beneficiaries wanted larger budgets. The centralizing Community institutions (Commission, Parliament, ECJ) also aimed to have larger budgets because this would give them more power and influence. This behaviour has been affected by the creation of EMU and by the terms of the Stability Pact, which puts disciplines in place for all Euro-zone members and encourages them all to limit gross contributions to the Union. Monetary Union, and the SGP, have encouraged finance ministries not to increase centralized funding of the Union as suggested in the MacDougall Report but to limit it severely, in order to ensure that they meet the terms of the SGP. In the current negotiations for the next Financial Framework, it is worth noting that no member state is arguing for exceeding the Commission proposal.

The fact that nobody is discussing changing the own resources limit up to 2013, in spite of a major enlargement to poor and generally more agricultural countries, and in the face of new foreign policy challenges is a testimony to the change in attitude to budgetary matters which has taken place in the Union. This change is also testified to by the prudent size of recent annual budgets.

The current own resources decision restricts the size of the annual budget to 1.24% of Gross National Income (in payments appropriations). Any change in this

[8] The Italian Mezzogiorno is usually quoted as the classic example.

limit requires a unanimous decision in the Council. Payments appropriations in the 2004 budget, including expenditure on the new member states, amounts only to 0.98% of GDP, well below the own resources limit but also considerably less than that allowed for in the Berlin Financial Framework.

A further element of this debate on the size of future budgets is the growing gap between commitment and payment appropriations. Although the own resources decision is expressed in a percentage of payments appropriations, member states tend to look at commitments because these are eventual promises to pay. Commitment appropriations are usually somewhat above payment appropriations because many EU spending programmes operate on a multi-annual basis, where finance is committed in one year's budget but paid out in succeeding years. In the case of the Berlin Financial Framework the cumulated difference between commitments and payments appropriations for the EU-15 was just over €4 billion over the seven years.

In the financial framework for 2007-2013 proposed by the Commission on February 10th. 2004 however the difference between commitments and payments over the seven year period of the financial framework amounts to a massive €96 billion.[9] This reflects the new policies which the Commission hopes to see financed and the limited delays in payments for cohesion. The planned increase in the RAL obviously threatens far higher payments appropriations after 2013. In these circumstances it is obvious that the member states will concentrate on commitments as well as payments.

The overall volume of finance contained within the financial framework is simply the sum of the different lines of budgetary expenditure. This suggests that one should first look at the components of the budget before looking at the overall volume, subject to principles of prudence and efficiency. However the overall size of the budget is the most important element for Ministers of Finance, who will have

---

[9] accumulated unpaid commitments (RAL) at present appear to be of the order of €100 billion. It is estimated by the Commission that on its proposal the RAL will reach EUR 225 billion (in current prices) by 2013.

to transfer their national contributions to the EU budget from the national budget. The larger the EU budget, the larger the gross transfers for everybody, irrespective of the net position of the country. Such is the intensity of feeling in the member states that they started the discussion of the size of the overall budget long before the Commission paper was finished.

Six net contributors to the EU budget signed a joint letter in December 2003 in which they suggested that the annual level of payments appropriations in the financial framework should not exceed 1% of EU GNI, roughly the current level of payments appropriations.[10] In this way they hoped to bring pressure on the Commission to propose a conservative budget for the Union.

This pressure did not apparently influence the Commission in its first proposals. Whereas the Commission suggests that average payments appropriations can be held at 1.14% of GNI over the whole period 2007-2013, commitment appropriations are expected to be 1.26% of GNI.[11] The Commission maintains that this level of spending will be required in order to realize the policies which the Member States themselves support. This argument is somewhat disingenuous.

The fact that the Member States decide on common policies at the Union level does not mean that these policies have to be financed through the Union budget. The Common Foreign and Security Policy is a case in point, where financing has been shared between the Union and the Member States. Research is another example. Decisions on the coordination of research priorities and cooperation could be made at the level of the Union, while most of the funding could be provided by the member states nationally.

On the other hand existing policies do need to be financed. The Union has certain obligations from existing policies and agreements which a budget of below 1% of

[10] Austria, France, Germany, the Netherlands, Sweden and the United Kingdom: letter to President Prodi, 15.12.2003.

[11] Although the maximum level of payments appropriations is 1.24% of GNI, this does not include expenditure on development aid, which is now however included in the proposed commitments and payments for the period 2008-2013

GDP would make difficult to meet, as the Budget Commissioner has frequently pointed out.

## 4. Structure of the Financial Framework

Traditionally the Financial Framework has been broken down into policy headings, with a maximum level of expenditure agreed for each heading. Obviously the more detailed the headings the less flexibility there is, for money can not be transferred between lines without the agreement of the budgetary authority.

The structure of the Financial Framework 2000-2006 was based on policies – agriculture, structural funds, internal and external policies and administration. In addition one horizontal heading representing an objective to be achieved was added – enlargement.

In its proposal for the period 2007-2013, the Commission has selected headings which are wide policy objectives rather than individual policies:

- ⇒ sustainable growth broken down into competitiveness and cohesion
- ⇒ preservation and management of natural resources
- ⇒ citizenship, freedom, security and justice
- ⇒ the EU as a global partner
- ⇒ administration

Although this new structure does not significantly change the Financial Framework, it does show the political priorities which the Commission sees for the medium-term. It also makes clear that the budget should reflect these policy priorities. These headings will be attacked by some member states for making the financial framework less transparent. Indeed it will be more difficult to identify the spending on individual Union policies such as the CAP or JHA.

To some extent the Commission has been inspired by the 'Sapir Report' which also puts improving competitiveness at the top of its policy objectives. Unlike Sapir, it maintains high levels of spending on agriculture and the structural funds.

The Commission has made an effort however to ensure that agricultural spending will be a smaller part of future budgets than it was in the past. In nominal terms there will be a further increase in spending. In real terms however, agricultural spending is expected to fall slightly over the period 2007-2013, in spite of steadily rising subsidies for farmers in the new member states. Over the whole period 2007-2013 however CAP expenditure will fall to 29% of total expenditure (commitments) and by 2013 will only be around 26% of the annual budget. This compares to around 45% in the previous Financial Framework. The future expenditure on agriculture was decided in an extremely bizarre manner by President Chirac and Chancellor Schröder at a European Council meeting in Autumn 2003. They agreed then that expenditure on the CAP (but not including rural development) should not rise by more than 1% per annum in nominal terms until 2013. This deal is reflected in the proposal of the Commission.

However in addition to the CAP expenditures, the Commission is proposing to commit roughly 20% of the new heading 2 – Preservation and management of natural resources – to rural development. A large part of this money goes towards helping restructuring in agriculture. Together CAP and rural development spending will still make up 37% of the total commitments in the period 2007-2013.

Cohesion policy, on this proposal, would take over as the largest single item in the Financial Framework. In 2013 it would amount to 32% of the annual budget having consumed 33% over the period 2007-2013. This of course means that a substantial increase will have taken place in cohesion spending over this period. Even in real terms cohesion spending is projected to rise by 33% between 2006 and 2013; in nominal terms it will be more than 50% higher.

The most significant increase in proposed commitments is that of the competitiveness heading, which by 2013 would be using 16% of total commitments. Given that part of the cohesion funds will go towards achieving the Lisbon goals as well, this involves an important shift in resources.

The remaining headings – citizenship and the EU as a global partner – both receive a large boost to spending in real terms. 'Citizenship' (JHA) commitments rise by 90% over the period 2006-2013. 'Europe as a global partner' (foreign policy) increases by 40%. These are massive increases but as a proportion of total spending the former will make up only 3% and the latter 10% of total commitments in 2013.

The restructuring of the Union budget in the direction suggested by the Sapir Report has therefore begun with the Commission proposal for the 2007-2013 period. However the changes are quite naturally rather slow. Agriculture, rural development and cohesion still account for roughly 70% of the proposed commitments in this period, as opposed to roughly 80% in the previous one. The recent enlargement of the Union to relatively poorer countries with a large agricultural population clearly makes a more rapid shift in spending difficult.

## OVERVIEW OF THE NEW FINANCIAL FRAMEWORK 2007-2013

Million € at 2004 prices

| COMMITMENT APPROPRIATIONS | **2006** (a) | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | Total |
|---|---|---|---|---|---|---|---|---|---|
| **1. Sustainable growth** | **46,621** | **58,735** | **61,875** | **64,895** | **67,350** | **69,795** | **72,865** | **75,950** | **471,465** |
| **1a. Competitiveness for growth and employment** | 8,791 | 12,105 | 14,390 | 16,680 | 18,965 | 21,250 | 23,540 | 25,825 | 132,755 |
| **1b. Cohesion for growth and employment** (b) | 37,830 | 46,630 | 47,485 | 48,215 | 48,385 | 48,545 | 49,325 | 50,125 | 338,710 |
| **2. Preservation and management of natural resources** | **56,015** | **57,180** | **57,900** | **58,115** | **57,980** | **57,850** | **57,825** | **57,805** | **404,655** |
| of which **: Agriculture** - Market related expenditure and direct payments | 43,735 | 43,500 | 43,673 | 43,354 | 43,034 | 42,714 | 42,506 | 42,293 | 301,074 |
| **3. Citizenship, freedom, security and justice** | **2,342** | **2,570** | **2,935** | **3,235** | **3,530** | **3,835** | **4,145** | **4,455** | **24,705** |
| **4. The EU as a global partner** (c) | **11,232** | **11,280** | **12,115** | **12,885** | **13,720** | **14,495** | **15,115** | **15,740** | **95,350** |
| **5. Administration** (d) | **3,436** | **3,675** | **3,815** | **3,950** | **4,090** | **4,225** | **4,365** | **4,500** | **28,620** |
| Compensations | 1,041 | 120 | 60 | 60 | | | | | |
| **Total appropriations for commitments** | **120,688** | **133,560** | **138,700** | **143,140** | **146,670** | **150,200** | **154,315** | **158,450** | **1,025,035** |
| **GNI in prices of 2004** | 10526606 | 10834783 | 11097561 | 11401786 | 11666667 | 11927928 | 12140351 | 12443478 | 81512554 |
| **Commitments as % of GNI** | **1.15** | **1.23** | **1.25** | **1.26** | **1.26** | **1.26** | **1.27** | **1.27** | **1.26** |
| **Total appropriations for payments** (b)(c) | **114,740** | **124,600** | **136,500** | **127,700** | **126,000** | **132,400** | **138,400** | **143,100** | **928,700** |
| Appropriations for payments as a percentage of GNI | 1.09% | 1.15% | 1.23% | 1.12% | 1.08% | 1.11% | 1.14% | 1.15% | 1.14% |
| Margin available | 0.15% | 0.09% | 0.01% | 0.12% | 0.16% | 0.13% | 0.10% | 0.09% | 0.10% |
| Own resources ceiling as a percentage of GNI | 1.24% | 1.24% | 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.

(b) Includes expenditure for the Solidarity Fund (€ 1 billion in 2004 at current prices) as from 2006. However, corresponding payments are calculated only as from 2007.

(c) The integration of EDF in the EU budget is assumed to take effect in 2008. Commitments for 2006 and 2007 are included only for comparison purposes. Payments on commitments before 2008 are not taken into account in the payment figures.

(d) Includes administrative expenditure for institutions other than the Commission, pensions and European schools. Commission administrative expenditure is integrated in the first four expenditure headings.

(e) Amounts foreseen in the agreed European Union common position for the Accession Conference with Bulgaria (CONF-BG 27/04)

## 5. <u>Commitments by heading</u>

A more detailed explanation of the Commission proposals is given in the working papers produced for the Council.[12]

*Competitiveness for Growth and Employment*

The proposals under the heading 'competitiveness' include:

- Research and Development - 60%
- TENs - 20%
- Education and training -10%
- Competitiveness/Social policy -10%

The very large increase in R & D spending is perhaps the weakest part of the whole proposal. It appears that a much increased budget provision was proposed because it was thought that R & D should be a priority in the new objective of improving competitiveness. The subsequent justification of the proposed amounts has not been very convincing.[13]

Although the technique of proposing amounts of budgetary finance for perceived priorities without a clear 'business plan' has a long history in the Union, in the post-EMU situation with several countries in breach of the stability and growth pact, it is a technique which is unlikely to go unchallenged.

The overall Lisbon aim of increasing the R & D effort in the EU is not disputed. But there are many ways in which this can be achieved. Whether a system of picking the winners, guided at the Union level in the way in which the Framework Programmes have operated, is the most efficient way of using resources needs to be justified by results. Although the Framework

[12] working documents of the Commission, March 2004.
[13] European Commission, Science and technology, the key to Europe's future – Guidelines for future European Union policy to support research, COM (2004) 353, 16.6.2004

Programmes have been vastly over-subscribed, this is no justification for expanding them. When 'free money' is made available, it is usually over-subscribed.

The financing of R & D at the Union level may well be justifiable and indeed necessary to reach the Lisbon goals, but this has not been demonstrated by the Commission in its communications. Sentences such as '….to attain the Lisbon objectives, increasing research efforts at the overall European level is indispensable' need to be substantiated and it is necessary to demonstrate that these increased efforts require budgetary support. There are many alternatives to EU budgetary financing of research.

The Commission will need to give the Council and Parliament far more detail about the scope and aims of its proposals for research. Above all it will need to make its proposals for implementation far more convincing.

The Commission also proposes to increase financing for trans-European networks (TENs). 20% of the competitiveness heading would be used for this purpose, or EUR 26 billion over the period 2007-2013. Several member states put the question of what added-value there is in going beyond coordination of the TENs to justify substantial expenditure at the EU level.

10% of this heading will be spent on the development of training and education, which after the success of various student exchange schemes in the past should not prove difficult to justify.

The further contentious part of this heading is the proposal to create a 'Growth Adjustment Fund'. This fund would be able to support the most successful elements of the competitiveness strategy, lending more flexibility to this heading. The Commission proposes to feed it with EUR 1 billion/year from the 'competitiveness' heading and up to a further billion from unused commitments from the structural funds.

The member states are traditionally not too happy with the creation of funds which serve a vague purpose and which, while adding flexibility, reduce transparency.

*Cohesion for growth and employment*

The proposals for cohesion policy funding are far more thoroughly researched and justified than those for R & D. This does not mean however that they will not be opposed by certain member states.

The Commission has again chosen to set cohesion policies in the general framework of the Lisbon Agenda.[14] It emphasizes both the need to support growth processes in the new member states and to underpin R & D, training and enterprise development in the most disadvantaged regions but also more generally in the Union. It is on this latter aspect – the use of the cohesion funds in some of the richest parts of the Union – that attacks from member states can be expected.

The Commission proposes to realign the different funds into three strategic objectives:

- Convergence
- Regional competitiveness and employment
- European territorial cooperation

The Convergence objective is expected to absorb around 78% of total resources. It is restricted to those regions with less than 75% of average EU per capita GDP as well as those regions affected by the 'statistical effect'. It also includes the countries covered by the Cohesion Fund, which have per capita GDP of less than 90% of the EU average.

[14] European Commission, 3rd. Report on economic and social cohesion, February 2004; and COM (2004) 492, 14.7.2004

There is little dispute about structural funds support for the new member states and it is unlikely that major changes will be made here.

The main point of argument here will probably be the regime for the ‘statistical effect’ regions; that is regions which prior to enlargement qualified as ‘Objective 1’ regions, but now, following the drop in the average GDP per capita in the Union because of enlargement, no longer qualify. A similar regime existed in the previous financial framework for regions which no longer qualified for structural fund assistance. However the Commission now proposes a far more generous regime for these regions, which no longer qualify for ‘convergence’ status not because they have got richer but because the average has fallen. The ‘generosity’ of the proposal, which will include a favourable state aid regime, will be attacked by the net contributors, certain of whom will suggest that such transitional regimes should be met out of national resources.

The regional competitiveness and employment objective, which is expected to absorb 18% of total funding, also includes a transitional regime for regions which because of rapid growth would no longer meet the 75% of EU per capita GDP rule even in the context of the EU-15. It is proposed here however that the less generous ‘Berlin’ regime should be applied. The list of affected regions includes relatively well-off regions such as Sterea Ellada in Greece with 95% of the per capita GDP of the EU-25 or the Border, Midland and Western region in Ireland (93%). It is perhaps unlikely that this relatively small volume of finance will be challenged, given the Berlin precedent.

More likely to be challenged is however the proposal to allow assistance under this objective to be allocated to any region in the Union, including the richest. Such a policy would not appear to be covered by the Treaty (art. 160 Amsterdam), which limits the Regional Fund to backward areas and those undergoing reconversion. The finance will be guided towards the Lisbon Agenda and therefore it is entirely possible that structural fund finance will be used to finance R & D activities in London or Paris.

The third objective, European territorial cooperation, will be a relatively small part of the total funding available in the structural funds (4%) and is likely to be welcomed by the majority of member states. Building on the generally well-considered cross-border programmes 'Interreg' and the Phare cross-border programme, the aim is to ensure that the external frontiers of the Union do not become 'iron curtains' but zones of cooperation between the Union and the neighbouring countries.

Some member states are uneasy about the lack of concentration of funds on the new member states over the period 2007 and 2013. The Commission's own figures suggest that almost 52% of the total funding will still go to the EU-15 countries, with 42% going to the 10 new member states and 6% to Bulgaria and Romania, when they join. These member states consider that a greater effort should be made to concentrate funds on the poorest areas of the enlarged Union. The British and Dutch Governments have indeed supported the view that only 'cohesion countries' should receive structural fund transfers, while poor regions in richer countries should be a national responsibility.

The new member states are arguing also that the limit for transfers of 4% of the recipient country's GDP is too restrictive and that it should, under certain conditions (e.g. proven absorption capacity), be relaxed. This would tend to raise the financing requirements of this heading, if no further concentration could be achieved.

The separation of the Structural Funds into five separate funds with different regulations but supposedly meeting the same objectives, complicates the proper implementation of cohesion policy but also the budgetary management. The new Commission would do well to tackle this problem and to reduce the five funds ideally to one. Unfortunately as with so many other things in politics, the funds persist because of the refusal of agents managing the funds to give up what they see as important instruments of their power base.

*Preservation and management of natural resources*

This heading includes CAP spending, rural development, fisheries policy and aspects of environment policy. However CAP financing accounts for three quarters of the expenditure under this heading and a further 20% will go to rural development. Given that a considerable part of the rural development budget goes to farming, this heading is essentially an ‘agriculture’ heading. Fisheries policy accounts for just 2% and the remainder is destined to a new environment programme incorporating several existing programmes such as LIFE. The major part of environment policy continues therefore to be funded under other headings such as cohesion policy, agriculture or external relations.

The Commission appears here to have been guided by the Brussels 2003 deal on agriculture. CAP spending therefore rises by roughly 1% nominal annually, which, with a 2% inflation rate underlying the financial framework, translates into a fall in expenditure in real terms. Nevertheless agricultural spending, if one includes rural development, remains the largest share of the budget even in 2013 (34%).

The real question here is whether the resources reserved for the CAP will suffice to meet the policy needs and, if not, where economies will be made. Throughout the period of the financial framework, payments to farmers in the new member states, and in Bulgaria and Romania will be rising, as they progress through the transition arrangements in the accession treaty. The financial outcome of many of the reforms in the CAP are difficult to quantify. So far the Commission has not given any detailed answers to the obvious questions such as the breakdown of expenditure between market-related payments and direct income subsidies or the estimate of the impact of modulation in transferring expenditure from the CAP to rural development.

The possible inadequacy of finances in the financial framework not only raises the possibility of further significant reforms to the CAP but also of a limited renationalisation of agricultural expenditure. These questions are of course also related to the commitments made by the Union in the WTO negotiations.

It is unlikely that the allocation of finance to this heading will be challenged in the negotiations on the financial framework. Some member states will want to keep a separate ‘agriculture’ heading in the name of transparency but the global amounts have been agreed in the European Council and therefore are likely to remain uncontested.

*Citizenship, freedom, security and justice*

This heading includes a mixed bag of policies but is dominated by justice and home affairs. It is obvious that most member states have ambitions to develop JHA strongly in the coming years to ensure internal security within the EU. It is however difficult to judge at this stage the financial implications of this policy development.

The remaining policy elements under this heading have nothing do with JHA and the Commission has been criticized for including them here. Access to basic public services is one of these elements. This is peculiar as there is no Union policy for providing access to public services at the Union level. This is clearly an initiative of the French Government which has brought considerable pressure on the Commission over the years to develop such a policy, but which up to now has been repulsed. 20% of this heading is destined to this area of activity, yet the Commission gives no justification for this expenditure or any indication of what will be financed. One gets the impression that it has been included under duress but in a way that makes it easy for the Council to eliminate.

Cultural cooperation is also included. This appears to consist mainly of support for citizen exchanges, especially youth exchanges, and subsidy for the European film industry (MEDIA and other programmes).

While these minor policy areas will no doubt be criticized, it is unlikely that the very rapid growth in finance for JHA (a tripling of the budget over the period up to 2013) will be seriously attacked. It has been justified in some detail by the Commission. Some countries indeed would like to see an increase in finance for the protection of the Union's external frontier. The new member states, which apart from the Czech Republic, all have external frontiers would like to see the further development of the Schengen Facility, which is part of the Accession Treaty. EU-15 member states which are bearing a considerable part of this burden, such as Italy, would also support higher spending. Protection of the external border is a typical area which justifies Union spending, as the member states concerned are providing a service to the whole Union.

*The EU as a global partner*

An increase in funding for foreign policy is inevitable given the ambitions of the Union in this field and the fact that the realization of these ambitions involves expenditure.

The Commission proposes the integration of the European Development Fund into the Union budget. This respects a sound budgetary principle that off-budget items are less transparent and more open to abuse than budgeted expenditure. It also extends democratic oversight by putting development assistance into the normal budgetary process.

The result of the budgetisation of EDF is that around 50% of this heading will be spent on what the Commission calls 'partnership for sustainable development'. Around another third is destined to be spent on 'neighbourhood policy'.

Neighbourhood policy includes expenditure on pre-accession programmes as well as assistance to the western Balkans, the Mediterranean neighbours and eastern Europe. With the enlargement of the Union and the establishment of the external frontier of the Union, this is considered a policy priority to ensure that the frontiers do not become too divisive and exclusive.

The remaining area is the traditional Common Foreign and Security Policy expenditure including support for human rights.

The Commission proposes six instruments to meet these objectives:

- Economic cooperation and development
- Peace and security
- A pre-accession instrument replacing Phare, ISPA and Sapard
- A European Neighbourhood instrument
- Humanitarian aid
- Macro-financial assistance

In general this expenditure is unlikely to be challenged seriously, though the budgetisation of EDF will be criticized by some. However given the degree of clientalism in foreign policy, member states will want assurances that their favourite third countries are not going to suffer in any redistribution of finance.

*Administration*

The Commission may face stiff opposition to its proposal to redistribute administrative costs across relevant headings, leaving only pensions and the administrative expenditure of other Union institutions under the heading ‘Administration’. Many delegations will think that this is a way of concealing the growth of the real administrative costs of the Union.

## 6. <u>Proposals on the own resources side of the budget</u>

While most of the discussion concerns the expenditure side of the budget, the Commission raises two items on the own resources side. The first is the question of the British budget compensation mechanism, the second the creation of an automatic and specific European Union source of budget finance.

The question of the British budgetary rebate was discussed during the preparation of the Berlin Financial Framework. As a result the burden of the rebate was reduced for Germany, the Netherlands, Austria and Sweden, leading to higher burdens on the remaining member states.

Since 1999 three important developments have taken place which affect the perception of the rebate. The performance of the British economy has been better than that of the key Eurozone economies, leading, on some measures, to Britain becoming one of the richest member states in per capita GDP terms. The Stability and Growth Pact in the Eurozone has led to a reappraisal by Eurozone members of the rebate in the context of reducing government expenditure. Thirdly enlargement to central European countries means that these countries now have to contribute to the British budgetary rebate, in spite of being far poorer.

The problem for the Union is that the United Kingdom has a veto on changes to the budget rebate and therefore any change must be part of a political settlement. In spite of the rebate Britain remains a major net contributor to the budget: in the latest figures (for 2003) it was the second largest net contributor after Germany.[15] The current proposal for the financial framework will do practically nothing to increase EU transfers to the UK. With no correction mechanism, Britain would be the largest net contributor over the 2007-2013 period by quite a large margin.

The Commission has put forward a generalized rebate mechanism, which would compensate any member state whose net contribution exceeded a certain threshold expressed as a percentage of its Gross National Income. This would take the form of a partial reduction of the net contribution above

[15] European Commission, September 2004, Allocation of 2003 EU operating expenditure by Member State,

this threshold. If the threshold were to be for instance 0.25% of GNI it would be expected that, apart from the United Kingdom, Germany, Austria, the Netherlands, Sweden and to a minor extent Italy and perhaps even Cyprus and France would benefit from the reduction.

However the situation for some of these countries is not so obvious as it might seem. Austria for instance benefits from a reduced level of contribution to the British budget rebate. A generalized system of rebate could leave Austria worse off than at present. What is obvious is that almost any revision system, which is generalized and not linked to one particular member state will lead to the UK becoming and staying the largest net contributor.

The second own resources proposal is that there should be consideration given to the creation of a real own resource of the Union rather than the current system, which relies on transfers authorized by the governments of the Member States. However given the state of relations between some of the member states and the Union, even the Commission considers that this is an innovation which is not appropriate at this time.

## 7. Flexibility in the Financial Framework

One of the key objectives of the Union’s financial framework is budgetary discipline. The own resources limit sets an upper limit to spending in the Union and is decided by unanimity. However the financial framework, through its maximum expenditure levels for different categories of expenditure, enforces financial discipline within the upper limit of the own resources decision.

However with the increasing complexity of the challenges facing the Union and the extension of the areas of competence over the years, flexibility within the budget, both annually and in the medium-term, has become very important. Undoubtedly there will be new challenges to Union policy in the period 2007-2013 which are not apparent today. Yet the financial framework will fix the financing possibilities of the Union for the next decade.

The problem of creating considerable flexibility while maintaining budgetary discipline can be tackled in a variety of ways. Some concern the structure of the financial framework itself, others the development of flexibility instruments which permit changes in the framework.

One sort of 'static' flexibility is a function of the length of the financial framework and the number and type of headings used.

The longer the period covered by the financial framework the lower the flexibility. It would in future be better to plan expenditure for a shorter period than the 7 years which the Commission proposes (for technical reasons) for the period 2007-2013. A three or five year period might be more appropriate. The problem here is however that this would plunge the Union into a permanent debate about finance. The debate on the next financial framework started in earnest with the letter of the six member states urging budgetary restraint at the end of 2003. The framework is likely to be finally agreed at the end of 2005 or in Spring 2006. The means that the 'hot' phase of the argument will have lasted two and a half years. No one is really interested in having these difficult negotiations occurring more frequently in the life of the Union.

The greater the number of headings there are and the more specific they are, the less flexibility there will be in the medium-term budget. The Commission in its proposal for 2007-2013 has attempted to restrict the number of headings and to limit their specificity. This is sensible, even if some of the headings contain very different policies.

The level of the margins available within the headings and the overall margin below the own resources limit are of course also important static reserves of flexibility.

The Commission is however also proposing several flexibility mechanisms. These consist of:

- The establishment of flexible ‘funds’ which can be used for different purposes within a heading during the course of the financial framework: the Growth Adjustment Fund and the EU Solidarity Fund (created in 2000)
- The revision procedure with a regular meeting between the budgetary authority and the Commission before each preliminary draft budget to review budgetary needs
- A ‘reallocation facility’ to replace the ‘flexibility instrument’ in the last financial framework.

While the Solidarity Fund, which provides for assistance to catastrophes within the Union, will be renewed, the outcome of the discussion on the Growth Adjustment Fund is uncertain. Member States in general do not like giving this sort of flexibility to the Commission, which effectively decides where this money should be used.

The revision procedure implies a reopening of the financial framework with the Council requiring unanimity for a revision to take place. It was only used once in the period 1993-99 and has only been used once in the Berlin financial framework (for enlargement). This is the most appropriate instrument to use when changes in budgetary priorities occur but it causes major disagreements within and between the Institutions.

The flexibility instrument within the Inter-Institutional Agreement covering the 2000-2006 period allows up to EUR 200 million to be reallocated to a priority area when there is inadequate margin within a heading. This facility (subject to the codecision procedure with qualified majority in the Council) has been used regularly. The Commission intends to retain such a facility in a modified and somewhat more efficient form.

The question of flexibility within the financial framework will remain important as the Union increases its involvement in foreign affairs and meets new challenges of internal security and perhaps economic instability. While increased flexibility holds a danger of budgetary excess, it also promises more efficient expenditure in areas which really matter to Union policy. The flexibility experience of the last few years has not suggested that there is too much flexibility which is affecting budgetary discipline. Indeed the reverse may be the case. There may be too little flexibility to ensure efficient use of funds.

## 8. Political Economy of the Financial Framework

The negotiation of the Financial Framework will be an exceedingly complicated process, with frequently shifting alliances of member states. Certain relatively obvious groupings can be identified, but there will be differences of opinion and strategy even within these groups. It is relatively difficult at this stage to predict the final outcome although some elements are already relatively clear: no member state will contest the own resources limit and it is unlikely that any will want to increase the level of spending above that proposed by the Commission.

*Net contributors and net beneficiaries*

The traditional way of looking at the political economy of the Union budget is to concentrate on the net contributor/net beneficiary dichotomy. This is still a valid analytical basis as we see from the letter of the six member states which want to limit the size of the annual budget to 1% of GNI. However the political economy of the financial framework is considerably more complex. The net contributors and beneficiaries disagree amongst themselves on many aspects. It is more realistic to think of the member states as members of flexible and ever changing alliances

Both France and Germany for example have problems meeting the terms of the Stability and Growth Pact. It is no wonder that both countries have been pushing for a lower budget than that proposed by the Commission. However even these two countries do not have identical interests. France would like to ensure that agricultural spending in the Union remains high, because France is a large net beneficiary of the CAP. This is not the case for Germany, which would benefit significantly from a lowering of agricultural spending or its renationalisation. Germany is in a difficult position over structural fund spending in the new Bundesländer. While overall Germany would be in favour of limiting structural fund spending to the new member states, there is a strong lobby from the new Länder to maintain the flow of funds from Brussels.

The group of six net contributors will also disagree on the Commission proposals on the system of budget rebates for member states which bear an excessive level of net contribution. The United Kingdom will obviously not be prepared to discuss the UK rebate, unless there are considerable structural shifts in the budget away from agriculture. The French will be keen to get changes in the UK rebate as they are the major contributor to it. The Germans and the Austrians, both of which get a rebate on their UK rebate payments may not be significantly better off under the new Commission proposal than with the current UK rebate.

On the side of the net recipients, the situation is if anything more complex. Some of the former net recipients will become net contributors with enlargement. This applies for instance to Ireland and Denmark, while countries such as Spain which in the past were major beneficiaries will lose a major part of their transfers. The new member states in central Europe will be major beneficiaries. While Spain will want to maximize its transfers from the structural funds, it will be obvious that this is the last financial framework in which it will be a major net recipient. Under these circumstances it is not obvious that Spain will be a reliable ally for the new member states.

For all these reasons, although the dichotomy net beneficiaries/net contributors will continue to be a potent force, it will only explain the final outcome to a limited degree.

*The Euro-zone*

It is obvious that the net contributors to the budget want to reduce their net contributions to a minimum. However the creation of monetary union has put more emphasis on gross payments to the Union budget from all members of the Euro-zone. Receipts from the Union budget usually only affect the revenue side of the national budget as a weak secondary effect – agricultural subsidy affects national budget revenue through the taxes which farmers pay and expenditure through the possibility of substituting Union subsidy for national subsidy. Gross payments from all the member states have a significant impact on government expenditure and therefore on the ability of a country to meet the Maastricht criteria for monetary union and the terms of the Stability and Growth Pact. This leads all member states to be prudent in their support for EU budgetary spending.

In the current situation, where France and Germany have exceeded the Maastricht criteria for the government deficit for several years and are unlikely to meet it in the near future, there is a certain irony in the Commission's proposal to expand commitments substantially over the coming decade. The irony is strengthened by the fact that the Commission proceeded with Court action against France and Germany to force them to reduce their deficits, while proposing that they should be forced to pay higher contributions to the Union budget over the medium term.

The requirement to meet the terms of the SGP, even the more flexible formulation now being proposed, also of course exerts a discipline on non-members of the Eurozone with ambitions to join. This affects the new member states, most of which have expressed an ambition to adopt the Euro before the end of the decade.

Monetary Union is therefore a potent force for budgetary discipline, both at the national and the Union level.

*Liberals and statists*

The approach to the proposed financial framework will also be partially determined by the economic policy approach of the member states.

The more liberal member states, Ireland, the UK and the Netherlands for instance, are unlikely to favour EU action in areas which they consider to be essentially areas of private sector activity. They are also likely to be less favourable towards EU subsidy and in favour of stronger competition policy. On the other hand, countries like Belgium, France, Germany and Italy, where the role of the state is considered to be more essential, are more likely to support state activity through the EU budget.

This difference in approach to economic policy is seen in the debate on agricultural subsidy. France, Germany and Italy are all in favour of state support to farming, even though their policies differ considerably in detail. France as a beneficiary of the CAP is clearly in favour of a continuation of direct subsidy from the EU budget. Germany, as a net contributor to the CAP, would certainly gain from a renationalisation of the CAP, which would save it money and allow it to continue to pay generous national subsidies to its farmers. On the other hand, the UK has taken a strong line against CAP subsidy.

A future area of contention is likely to be the Commission's proposal to finance services of interest to the general public. The French Government has pushed hard for a policy which should ensure that vital public services are guaranteed. The problem for the 'liberals' is that this essentially means that these goods and services will be protected from competition, with the risk that resources are used inefficiently and that state subsidy becomes a permanent feature. Even here however the fronts are not clearly defined. The United

Kingdom has tended to side with France on protection of state postal services for instance.

*The new Member States in central Europe*

The influence of the new member states in central Europe will also be felt in the negotiations on the future financial framework.

The key objective of the new members must be economic growth and the process of catching up with the average level of development in the Union. For some of these countries employment creation is also a vital task. For many of them a secondary objective is membership of the monetary union and adoption of the Euro, though the economic debate on the relationship between growth and the adoption of the Euro is still high on the agenda of central banks and finance ministers throughout the region. Both growth and the adoption of the Euro are affected by the decisions on the financial framework.

The potential receipts of the new member states in central and eastern Europe are, at least at the current phase of the negotiations, not at risk, in spite of attacks by the high tax countries, notably France and Germany.[16] They could be at risk in the final stages of the negotiations if the only solution possible is to make pro rata cuts across all headings; this is a danger which needs to be considered seriously later in the negotiations.

The interest of these countries is therefore to restrict as far as possible their payments to own resources in the Union budget. But opposing the different payment elements of the financial framework also carries political risks.

A first major saving for the new member states would be achieved, without any change in the size of the budget; through the elimination of all 'budgetary

[16] Because of their inability to reform their own tax regimes, these countries wish to link low tax rates in the new member states to loss of structural funds.

rebate' schemes. The Commission estimates that without changes in the British budgetary compensation, Poland, for instance, will pay on average an annual EUR248 million between 2008 and 2013. The new general rebate scheme now proposed by the Commission would also require a considerable contribution from the new member states, which would depend on the 'threshold level' chosen.[17] Poland, for instance, would only be less burdened by this mechanism if the threshold level is set above 25%.

The new member states will be joined by several of the old member states in trying to negotiate away the British budget rebate. However those members which enjoy a rebate on the British rebate will not gain in a major way from the Commission's proposed general rebate and may be less motivated to ask for a change. Britain is unlikely to give up the rebate unless there is further reform of the Common Agricultural Policy, which it sees as one of the main causes of the budgetary cost of its membership of the Union. Obviously several of the new member states are unlikely to agree to further reform, not to mention France.

The next obvious area which does not appear justified to the new members is the very generous phasing out scheme proposed by the Commission for the 'statistical effect' and the 'phasing in' for regions in which growth has carried them beyond even the criteria for EU-15 support. Support for the 'statistical effect regions' would leave them with a per capita aid intensity higher than in the new member states.

There are however two reasons why the new member states may not attack these proposals so strongly. The first is that they are financially relatively small items. Phasing out will cost around EUR 22 billion over the seven years of the financial framework. The new member states will only save a relatively small part of their total contribution if the phasing out is reduced.

---

[17] The 'threshold level' is the net contribution expressed as a percentage of GDP which is considered 'fair'. Beyond this level a member state would receive a reduction in the normal level of contribution to avoid 'excessive' contributions.

The second reason however is that this measure is strongly supported by Spain and the new member states will probably not want to lose Spain's support in other areas of policy.

The new members will not be particularly enthusiastic about a third area of expenditure: the proposal for the new Objective 2 regions in the structural funds, through which 18% of the total structural financing (EUR 58 billion over 7 years) passes almost exclusively to the old member states. The Commission's proposal to allow this money to support even extremely rich areas of the Union will also not attract support from the new members.

The problem in this area is that again there is strong support from many of the beneficiaries in the old member states. Some of them may be against the idea of extending the geographical scope of the regime but few of them will be against the concept of an 'objective 2'. It is therefore unlikely that the new member states will succeed in making major savings on gross transfers to the Union budget, even if they do succeed in changing the proposal of the Commission.

The largest and most promising area for making savings on gross payments is undoubtedly the competitiveness heading. The Commission has not made any attempt to design this competitiveness programme to reflect, at least in part, the needs of the new member states and little of the finance earmarked for R and D spending will find its way to them. Scaling back expenditure here would bring significant gains to the new member states. The added advantage of attempting savings here is that they will not be alone but will be joined by some of the net contributors from the old member states.

Overall the new member states are therefore likely to aim for a financial framework which meets the needs of existing policies (and is therefore above the 1% of GDP proposed by the Group of Six) but which does not unnecessarily strain the national budget and therefore make EMU entry more difficult. For political reasons they are perhaps more likely to state their funding objectives at the start of the negotiation – funding for objective 1 regions, CAP subsidy and perhaps the European Neighbourhood Policy – than to suggest which areas of spending might be cut.

*The EU Institutions*

The EU institutions also have a keen interest in the financial framework. In proposing a large medium-term budget, at least in terms of commitments, the Commission has followed the traditional role of the centralizing institution. This is likely to be supported by the European Parliament, which also gains from the centralisation of activity in the Union. There are clearly capacity and credibility limits to what the Commission can propose and indeed in recent years it has constructed quite restrictive draft annual budgets at under 1% of GNI. Nevertheless the longer term aim of both Commission and Parliament is to have a larger centralized Union budget as the Union accepts a greater policy role.

The Commission frequently finds itself burdened with having to implement policies, which are decided by the Council, which is not however prepared to agree either the necessary financial support nor additional staff to implement the policies. This was one of the major reasons for failings in Commission management in the nineteen-nineties. Given the limited flexibility in the financial framework and the fact that it puts expenditure into a rigid framework for up to seven years, it is obvious that the Commission would like to see some headroom in the limits agreed for each heading.

## 9. Conclusion

The future financing of the European Union will be a major point of disagreement, conflict and ad hoc compromise over the next eighteen months. While still only representing slightly over 1% of EU GNI, the stability requirements of monetary union make any transfers to the Union budget unwelcome.

The proposal made by the Commission in February 2004 respects the own resources decision limiting payments appropriations to 1.24% of GNI but it proposes annual commitment appropriations which on average amount to 1.26% of GNI. As proposed payments appropriations are on average only 1.14% per annum, this would lead to a large commitment overhang (RAL) by 2013, with implications for payments in the following period.

This proposal comes at a time when some of the major contributor countries are struggling to undertake economic reform and to curb growing government deficits. This applies particularly to Germany and France and to several of the new member states. It seems unlikely therefore that these countries will agree to the proposals of the Commission.

On the other hand, it is equally unlikely that there will be agreement on the proposal of the six net contributor countries to limit the budget to 1% of GNI. This would require a considerable scaling back of current policies, including structural policies and agricultural subsidy. There are sufficient numbers of veto players in the Union to ensure that unanimity will not be achieved on cuts in these areas.

The most likely outcome is that while the Commission's payments proposals will be scaled back only very slightly, commitments, especially in the area of the competitiveness heading, may be cut. This would allow member states to demonstrate that they are in favour of budgetary rigour, while ensuring that there are sufficient payments appropriations to cover current policy commitments and to cope with expected new policy developments in the medium term.

If this is the outcome, it will be in contrast to the current Berlin Financial Framework, where the member states in the end generally accepted the Commission proposal. This will hardly be a crippling blow for the new Commission's credibility, the proposal having been developed by the Prodi team. The Barroso Commission while 'loyally defending' the proposal of its predecessor, may not be too disappointed to see changes made.

On a more general point, it is important for the Union to consider reforms to the financing system, including the financial framework. Agreeing binding limits for various headings in the budget for as long as seven years may be very unsatisfactory in a world which is unstable and where priorities are changing constantly. Additional flexibility is required without losing the great merit of the financial framework - budgetary discipline.

# Working Papers in Contemporary European Studies

1. Vesna Bojicic and David Dyker — June 1993
   *Sanctions on Serbia: Sledgehammer or Scalpel*

2. Gunther Burghardt — August 1993
   *The Future for a European Foreign and Security Policy*

3. Xiudian Dai, Alan Cawson, Peter Holmes — February 1994
   *Competition, Collaboration & Public Policy: A Case Study of the European HDTV Strategy*

4. Colin Crouch — February 1994
   *The Future of Unemployment in Western Europe? Reconciling Demands for Flexibility, Quality and Security*

5. John Edmonds — February 1994
   *Industrial Relations - Will the European Community Change Everything?*

6. Olli Rehn — July 1994
   *The European Community and the Challenge of a Wider Europe*

7. Ulrich Sedelmeier — October 1994
   *The EU's Association Policy towards Central Eastern Europe: Political and Economic Rationales in Conflict*

8. Mary Kaldor — February 1995
   *Rethinking British Defence Policy and Its Economic Implications*

9. Alasdair Young — December 1994
   *Ideas, Interests and Institutions: The Politics of Liberalisation in the EC's Road Haulage Industry*

10. Keith Richardson — December 1994
    *Competitiveness in Europe: Cooperation or Conflict?*

11. Mike Hobday — June 1995
    *The Technological Competence of European Semiconductor Producers*

12. Graham Avery — July 1995
    *The Commission's Perspective on the Enlargement Negotiations*

13. Gerda Falkner — September 1995
    *The Maastricht Protocol on Social Policy: Theory and Practice*

14. Vesna Bojicic, Mary Kaldor, Ivan Vejvoda — November 1995
    *Post-War Reconstruction in the Balkans*

15. Alasdair Smith, Peter Holmes, Ulrich Sedelmeier, Edward Smith, Helen Wallace, Alasdair Young — March 1996
    *The European Union and Central and Eastern Europe: Pre-Accession Strategies*

16. Helen Wallace — March 1996
    *From an Island off the North-West Coast of Europe*

17. Indira Konjhodzic — June 1996
*Democratic Consolidation of the Political System in Finland, 1945-1970: Potential Model for the New States of Central and Eastern Europe?*

18. Antje Wiener and Vince Della Sala — December 1996
*Constitution Making and Citizenship Practice - Bridging the Democracy Gap in the EU?*

19. Helen Wallace and Alasdair Young — December 1996
*Balancing Public and Private Interests Under Duress*

20. S. Ran Kim — April 1997
*Evolution of Governance & the Growth Dynamics of the Korean Semiconductor Industry*

21. Tibor Navracsics — June 1997
*A Missing Debate?: Hungary and the European Union*

22. Peter Holmes with Jeremy Kempton — September 1997
*Study on the Economic and Industrial Aspects of Anti-Dumping Policy*

23. Helen Wallace — January 1998
*Coming to Terms with a Larger Europe: Options for Economic Integration*

24. Mike Hobday, Alan Cawson and S Ran Kim — January 1998
*The Pacific Asian Electronics Industries: Technology Governance and Implications for Europe*

25. Iain Begg — August 1998
*Structural Fund Reform in the Light of Enlargement*
Centre on European Political Economy Working Paper No. 1

26. Mick Dunford and Adrian Smith — August 1998
*Trajectories of Change in Europe's Regions: Cohesion, Divergence and Regional Performance*
Centre on European Political Economy Working Paper No. 2

27. Ray Hudson — August 1998
*What Makes Economically Successful Regions in Europe Successful? Implications for Transferring Success from West to East*
Centre on European Political Economy Working Paper No. 3

28. Adam Swain — August 1998
*Institutions and Regional Development: Evidence from Hungary and Ukraine*
Centre on European Political Economy Working Paper No. 4

29. Alasdair Young — October 1998
*Interpretation and 'Soft Integration' in the Adaptation of the European Community's Foreign Economic Policy*
Centre on European Political Economy Working Paper No. 5

30. Rilka Dragneva — March 1999
*Corporate Governence Through Privatisation: Does Design Matter?*

31. Christopher Preston and Arkadiusz Michonski — March 1999
*Negotiating Regulatory Alignment in Central Europe: The Case of the Poland EU European Conformity Assessment Agreement*

32. Jeremy Kempton, Peter Holmes, Cliff Stevenson — September 1999
*Globalisation of Anti-Dumping and the EU*
Centre on European Political Economy Working Paper No. 6

33. Alan Mayhew — March 2000
*Financial and Budgetary Implications of the Accession of Central and East European Countries to the European Union.*

34. Aleks Szczerbiak — May 2000
*Public Opinion and Eastward Enlargement - Explaining Declining Support for EU Membership in Poland*

35. Keith Richardson — September 2000
*Big Business and the European Agenda*

36. Aleks Szczerbiak and Paul Taggart — October 2000
*Opposing Europe: Party Systems and Opposition to the Union, the Euro and Europeanisation*
'Opposing Europe Research Network' Working Paper No. 1

37. Alasdair Young, Peter Holmes and Jim Rollo — November 2000
*The European Trade Agenda After Seattle*

38. Sławomir Tokarski and Alan Mayhew — December 2000
*Impact Assessment and European Integration Policy*

39. Alan Mayhew — December 2000
*Enlargement of the European Union: an Analysis of the Negotiations with the Central and Eastern European Candidate Countries*

40. Pierre Jacquet and Jean Pisani-Ferry — January 2001
*Economic Policy Co-ordination in the Eurozone: What has been achieved? What should be done?*

41. Joseph F. Francois and Machiel Rombout — February 2001
*Trade Effects From The Integration Of The Central And East European Countries Into The European Union*

42. Peter Holmes and Alasdair Young — February 2001
*Emerging Regulatory Challenges to the EU's External Economic Relations*

43. Michael Johnson — March 2001
*EU Enlargement and Commercial Policy: Enlargement and the Making of Commercial Policy*

44. Witold Orłowski and Alan Mayhew — May 2001
*The Impact of EU Accession on Enterprise, Adaptation and Insitutional Development in the Countries of Central and Eastern Europe*

45. Adam Lazowski — May 2001
*Adaptation of the Polish legal system to European Union law: Selected aspects*

46. Paul Taggart and Aleks Szczerbiak — May 2001
*Parties, Positions and Europe: Euroscepticism in the EU Candidate States of Central and Eastern Europe*
'Opposing Europe Research Network' Working Paper No. 2

47. Paul Webb and Justin Fisher — May 2001
*Professionalizing the Millbank Tendency: the Political Sociology of New Labour's Employees*

48. Aleks Szczerbiak — June 2001
*Europe as a Re-aligning Issue in Polish Politics?: Evidence from the October 2000 Presidential Election*
'Opposing Europe Research Network' Working Paper No. 3

49. Agnes Batory — September 2001
*Hungarian Party Identities and the Question of European Integration*
'Opposing Europe Research Network' Working Paper No. 4

50. Karen Henderson — September 2001
*Euroscepticism or Europhobia: Opposition attitudes to the EU in the Slovak Republic*
'Opposing Europe Research Network'Working Paper No. 5.

51. Paul Taggart and Aleks Szczerbiak — April 2002
*The Party Politics of Euroscepticism in EU Member and Candidate States*
'Opposing Europe Research Network' Working Paper No. 6.

52. Alan Mayhew — April 2002
*The Negotiating Position of the European Union on Agriculture, the Structural Funds and the EU Budget.*

53. Aleks Szczerbiak — May 2002
*After the Election, Nearing The Endgame: The Polish Euro-Debate in the Run Up To The 2003 EU Accession Referendum*
'Opposing Europe Research Network' Working Paper No. 7.

54. Charlie Lees — June 2002
*'Dark Matter': institutional constraints and the failure of party-based Euroscepticism in Germany.*
'Opposing Europe Research Network' Working Paper No. 8.

55. Pinar Tanlak — October 2002
*Turkey EU Relations in the Post Helsinki phase and the EU harmonisation laws adopted by the Turkish Grand National Assembly in August 2002*

56. Nick Sitter — October 2002
*Opposing Europe: Euro-Scepticism, Opposition and Party Competition*
'Opposing Europe Research Network' Working Paper No. 9.

57. Hans G Nilsson — November 2002
*Decision Making in EU Justice and Home Affairs: Current Shortcomings and Reform Possibilities*

58. Adriano Giovannelli — November 2002
*Semipresidentialism: an emerging pan-European model*

59. Daniel Naurin — December 2002
*Taking Transparency Seriously*

60. Lucia Quaglia — March 2003
*Euroscepticism in Italy and centre Right and Right wing political parties.*
'Opposing Europe Research Network' Working Paper No. 10.

61. Francesca Vassallo — March 2003
*Another Europenaisation Case: British Political Activism*

| | | |
|---|---|---|
| 62. | Kieran Williams, Aleks Szczerbiak, Bridgid Fowler<br>*Explaining Lustration in Eastern Europe : a Post-Communist Politics Approach* | March 2003 |
| 63. | Rasa Spokeviciute<br>*The Impact of EU Membership of The Lithuanian Budget* | March 2003 |
| 64. | Clive Church<br>*The Contexts of Swiss Opposition to Europe* | May 2003 |
| 65. | Alan Mayhew<br>*The Financial and Budgetary Impact of Enlargement and Accession* | May 2003 |
| 66. | Przemysław Biskup<br>*Conflicts Between Community and National Laws: An Analysis of the British Approach* | June 2003 |
| 67. | Eleonora Crutini<br>*Evolution of Local Systems in the Context of Enlargement* | August 2003 |
| 68. | Professor Jim Rollo<br>*Agriculture, the Structural Funds and the Budget After Enlargement* | August 2003 |
| 69. | Aleks Szczerbiak and Paul Taggart<br>*Theorising Party-Based Euroscepticism: Problems of Definition, Measurement and Causality*<br>'European Parties Elections and Referendums Network' Working Paper No. 12 | October 2003 |
| 70. | Nicolo Conti<br>*Party Attitudes to European Integration: A Longitudinal Analysis of the Italian Case*<br>'European Parties Elections and Referendums Network' Working Paper No. 13 | November 2003 |
| 71. | Paul Lewis<br>*The Impact of the Enlargement of the European Union on Central European Party Systems*<br>'European Parties Elections and Referendums Network' Working Paper No. 14 | November 2003 |
| 72. | Jonathan P Aus<br>*Supranational Governance in an "Area of Freedom, Security and Justice": Eurodac and the Politics of Biometric Control* | December 2003 |
| 73. | Juraj Buzalka<br>*Is Rural Populism on the decline? Continuities and Changes in Twentieth Century Europe: The case of Slovakia* | February 2004 |
| 74. | Anna Slodka<br>*Eco Labelling in the EU : Lessons for Poland* | May 2004 |
| 75. | Pasquale Tridico<br>*Institutional Change and Economic Performance in Transition Economics: The case of Poland* | May 2004 |
| 76. | Arkadiusz Domagala<br>*Humanitarian Intervention: The Utopia of Just War? The NATO intervention in Kosovo and the restraints of Humanitarian Intervention* | August 2004 |

77. Marisol Garcia, Antonio Cardesa Salzmann & Marc Pradel — September 2004
*The European Employment Strategy: An Example of European Multi-Level Governance*

All Working Papers are downloadable free of charge from the web - www.sei.ac.uk

Otherwise, each Working Paper is £5.00 (unless noted otherwise) plus £1.00 postage and packing per copy in Europe and £2.00 per copy elsewhere. Payment by credit card or cheque (payable to 'University of Sussex')