

EU BUDGET MILESTONES: FROM FUNDAMENTAL SYSTEMIC REFORMS TO ORGANISED CHAOS

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ABSTRACT:

In this paper, the four “milestones” of the EU budget, the four main packages related to the mid-term financial perspectives are being examined. The overall tendency seems to be clear: in 1988 the Delors I. package has created the basic features of a system that has been later adjusted several times, and for today, we arrived at a point, where it is hard to be seen because of the jungle of modifications. Time is running fast – it is now that we have to begin to think about how the new system should look like, if we are interested in making Europe dynamic, innovative and competitive on the long run.

KEY WORDS: European Union, budget, Delors

HITOS DEL PRESUPUESTO DE LA UE: DESDE LAS REFORMAS SISTEMÁTICAS FUNDAMENTALES AL CAOS ORGANIZADO

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ABSTRACT:

En este artículo se examinan los cuatro hitos de la historia del presupuesto de la UE. La tendencia general parece ser clara: en el año 1988, se introduce el paquete presupuestario Delors I, creando, de esta manera, el sistema base, que luego se ve ajustado en varias ocasiones. A día de hoy, llegamos al punto en el cual se hace difícil ver el sistema mismo, debido a la gran cantidad de modificaciones posteriores. El tiempo corre, y es ahora, cuando hay que empezar a pensar como debería ser el nuevo sistema, sobre todo si queremos construir una Europa dinámica, innovadora y competitiva a largo plazo.

PALABRAS CLAVES: Unión Europea, presupuesto, Delors

1. INTRODUCTION

Some years after the introduction of the system of own resources, conflicts related to the EU¹ budget have emerged between institutions and member states. These conflicts were mostly related to the budgetary positions of the member states (net payers or net receivers). The budgetary positions were a result of the functioning of the system of own resources as well as of the distribution according to the expenditure headings (first of all, agriculture, and gradually increasingly, structural operations). The conflicts have been aggravated by the higher financial needs of a wider integration from the 1980s, which also decided to make important steps towards deepening.

The reactions to these challenges – the Delors packages – proved to be successful instruments, and meant a substantial reform of European finances. The above conflicts – together with conflicts between European institutions (first of all, between the Council and the European Parliament) are, however, still present. A new aspect has been added to the conflict by the perspective of Eastern enlargement first, and by the Eastern enlargement itself in 2004. The EU has given its responses to the new challenges with the Agenda 2000, and, just some days ago, with the agreement reached at the Brussels European Council on the financial perspective 2007–2013.

This paper presents the basic documents of the four mid-term financial perspectives (the first one began in 1988, the fourth one will begin in 2007): the Delors packages, the decisions of the 1999 Berlin European Council based on the Agenda 2000, and the results of the Brussels European Council in December 2005. After the overview of these “milestones”, some general conclusions – regarding among others the declining presence of strategic thinking in these debates – will be drawn.

The paper is not a classical “academic” one in the sense that the sources of information are exclusively the EU documents and official publications listed in the end of the paper. In the case of the Brussels European Council in December 2005, we cannot even speak about finalised documents (at the moment of the completion of the paper, there is only a provisional document on the financial perspective 2007–2013, and, of course, institutional rules and regulations for that period are far from being re-negotiated); this is why this event is dealt with in a different way from the others, where distance allows a more “historical” approach. It is, however, still possible and hopefully interesting to make comparisons, and on this basis, to draw some conclusions.

2. THE DELORS PACKAGES: FUNDAMENTAL REFORMS OF THE EU BUDGET

In order to solve the conflicts as well as to give an adequate reaction to the widening and deepening of the integration, complex reform packages have been elaborated. The first of the two packages was a clear reaction on the Southward enlargement, while the second one completed it just some years later, taking also into account the consequences of the Single European Market and of the (then

¹ Though the paper contains events related to the EC (before the creation of the EU), for the reason of simplicity, we use the terms „EU” and „EU budget” throughout the paper.

future) Economic and Monetary Union. Both packages are named after the president of the European Commission that time, the French *Jacques Delors*.

2.1. The Delors I. package

In February 1987, the European Commission issued two documents. One of them dealt with the conditions of the successful realisation of the objectives of the Single European Act, while the other one tackled the system of financing the common budget.

In the second half of 1987, the Commission published its proposals concerning the changes in the Common Agricultural Policy and the Structural Funds, as well as in the general financial and budgetary framework. The proposals included possible new resources, modifications of the existing rules and regulations, the conditions of assuring budgetary discipline and the correction of budgetary imbalances.

As a result of the above documents and the debates following it, on 11–12 February 1988, a reform package (known today as the Delors I. package) has been approved by the European Council in Brussels; the package received formal approval on 24 June 1988.

The Delors I. package had three overall objectives:

- Introducing additional resources into the financing of the common budget, in order to assure its smooth functioning in the period 1988–1992;
- On the expenditure side, a considerable increase of the weight of structural operations on the one hand, the limitation of the increase of agricultural expenditure on the other hand;
- A fairer burden-sharing of the member states in the financing of the common budget, so that the shares of the contributions of the member states correspond better to their relative economic development level and power.

As a result of the reforms, in the period 1988–1992, the ceiling of the own resources increased gradually from 1.15% to 1.20% of the GNP of the Community. This ceiling concerned appropriations for payments; the ceiling for commitment appropriations has been established at 1.30% of the GNP of the Community from 1992. There have also been changes in the elements of the own resources system: the traditional own resources (TOR) have been rationalised (customs duties on ECSC products became also part of these resources), and 10% of the TOR – considered as collection costs – could remain at the member state where they had been collected (the real change was that after the Delors I. package, the 10% was not returned to the member state, but remained there directly).

Concerning the VAT-resource, the contributions have been corrected taking into account the differences of the economic structure of the member states (the rate of consumption). The base of contribution was capped: only the part of the VAT-base not exceeding 55% of the GNP of the given member state was taken into account; the maximal rate of the VAT-resource increased to 1.4%.

The most important step in the field of own resources was the introduction of the GNP-resource (the so-called “fourth resource”). The new (“buffer”) resource

assured the balance of the budget and contributed to a great extent to the correction of budgetary imbalances.

Special attention was devoted to budgetary discipline. Two documents have been issued in this matter, fixing the basic principles: the decision of the Council on budgetary discipline on 24 June 1988 and the inter-institutional agreement signed on 29 June 1988 (Parliament, Council, Commission). According to these documents, discipline concerns all expenditure categories and all the institutions. The documents emphasise the responsibility of the institutions signing the inter-institutional agreement.

For the period 1988–1992, a mid-term financial perspective was elaborated. The objective of the preparation of such a framework was to enhance stability, predictability and harmonic development. The financial perspective is a framework to be respected at the debates on the yearly budgets of the given period. Parallel with the establishment of the mid-term financial perspective, the principle of annuality has also been reinforced, and measures have been taken to improve the management of the budget.

One of the main objectives of the 1988–1992 period was the limitation of agricultural expenditure. The growth rate of agricultural expenses was therefore limited to 74% of the growth rate of Community GNP, and the Delors I. package has also modified the treatment of agricultural stocks, with special regard to the rules of depreciation. Stabilisation and warning mechanisms have been introduced, and a monetary reserve has been created in order to be able to handle the effects of the possible changes in the USD/ECU exchange rate.

Another important issue was assuring budgetary discipline in the field of non-obligatory expenditure. Yearly increases in this category must not endanger the respect for the ceilings established in the mid-term financial perspective; the Parliament has the right to increase this kind of expenditure until the ceiling for the given expenditure item is not reached. An important point is that the revision of obligatory expenditure items must not lead to the decrease of non-obligatory expenditure. Thus, it is assured that there are no “first class” and “second class” expenditure items in the EU budget.

The weight of non-obligatory expenditure items has become bigger; the most important factor behind it was the reform of structural operations (the biggest non-obligatory expenditure heading). The objective of the reform was to ensure the co-ordinated use, the effectiveness and the efficiency of the Structural Funds. As a result of the need for adequate reaction on the Southern enlargement of the Community, financing of structural operations increased at a rapid rate: between 1987 and 1993, commitments for structural operations have been doubled in real terms.

The Delors I. package also established a system of overall objectives for the use of Structural Funds. Thus the Objectives 1, 2, 3, 4, 5a and 5b have been created. Funds can be used – in a co-ordinated form – in order to finance actions corresponding to the above objectives; this meant a fundamental reform of regional (structural) policy.

The Delors I. package contained fundamental reforms and contributed decisively to the stabilisation of the common budget. Further reforms tried to preserve most of its achievements, aiming at the same time to adapt the system to the changing needs.

2.2. The Delors II. package

On the basis of the positive results of the 1988–1992 period, the European Commission proposed a new financial perspective and a new inter-institutional agreement. The actualisation of the financing was also necessary for several reasons:

- The financial consequences of the reform of the Common Agricultural policy in 1992 had to be taken into account;
- The experiences of the Structural Funds had to be evaluated, new regulation had to be formulated;
- The efficient functioning of the Single European Market as well as the international role of the Community necessitated changes;
- The consequences of the Treaty of Maastricht had to be handled adequately: the management of the Cohesion Fund and the financing of new Community tasks.

The proposals of the Commission appeared first in two documents issued in February 1992. The first one dealt with the period from the Single European Act to the times after Maastricht (this contained the so-called Delors II. package), the second one was an overview of Community finances with an outlook until 1997.

Regarding the size of the budget, the Commission proposed to increase appropriations for commitments from 1.20% of Community GNP in 1992 gradually to 1.37% of Community GNP in 1997. The main political priorities taken into account included reinforcing economic and social cohesion, with the further development of structural operations, strengthening external actions, in order to be able to cope with the changes in the international environment, increasing the competitiveness of European industry, with the Trans-European Network programme and with more emphasis on research and development.

On the basis of the results of the debates on its first proposals, the Commission issued its modified ideas in June 1992. The modified proposals included the plan of a seven-year financial perspective (lasting thus from 1993 to 1999) and a new proposal for the ceiling of own resources (1.32 of Community GNP from 1999; from this, 0.03% points for unforeseen expenditure).

Political decision about the reforms has been taken by the European Council in Edinburgh on 11–12 December 1992. Changes concerned both the revenue and the expenditure side of the budget. Modifications on the revenue included a gradual increase of the ceiling for own resources. In 1999, the ceiling was to be 1.27% of Community GNP for payments (from this, 0.01 % points for unforeseen expenditure), 1.335% of Community GNP for commitments. The maximal rate of the VAT-resource decreased gradually from 1.4% in 1995 to 1% in 1999, while the base of the VAT-resource was capped at 50% of GNP from 1995 in the case of Greece, Ireland, Spain and Portugal; in the case of the other member states, the capping value decreased gradually from 55% in 1995 to 50% in 1999.

Modifications on the expenditure side included several measures. In the field of agriculture, the limit of the increase of expenditure remained valid, and concerned all CAP expenditure, while monetary reserves (to handle the effects of possible changes in the USD/ECU exchange rate) decreased to 500 mn ECU/year from 1995;

Structural operations proved to be a key field again. Their financing increased by 75% until 1999 (1992: 17 bn ECU, 1999: 30 bn ECU). Concentration become

more important in structural operations (the weight of Objective 1 increased). The Cohesion Fund has been created, with the objective to help the less developed member states (Greece, Ireland, Portugal and Spain) in developing their infrastructure in the period of preparation (including the fulfilment of the Maastricht criteria) for the Economic and Monetary Union;

Internal policies enjoyed a 30% increase of expenditure during the 7-year period, with research and development (about 2/3 of total expenditure for internal policies), Trans-European Network as priority areas. In external actions two new reserves (emergency reserve, guarantee reserve) have been created, and expenditure for this heading increased by 55% throughout the 7-year period. In the field of administration, budgetary limits remained strict.

The agreement on the budgetary framework for the period 1993–1999 followed the development path and the modifications outlined in Edinburgh. The formal approval and the other necessary institutional arrangements remained for the next year.

The inter-institutional agreement had to be renewed. The renewal was, however, only after almost a year of negotiations after Edinburgh, on 29 October 1993. The main reason of the long discussion was that the Parliament judged the results of Edinburgh unsatisfactory, and has therefore set institutional pre-conditions for its agreement (these institutional pre-conditions contained the “defence” of non-obligatory expenditure items, and, in particular, the priority of structural operations). The inter-institutional agreement also contained the refining of the dialogue between the Parliament and the Council.

The technical solution of the inclusion of Edinburgh and of the new inter-institutional agreement was the modification and/or completion of the earlier rules (in most cases, created or modified by the Delors I. package). Thus, the Delors II. package preserved and developed further the results of the previous reform.

The mid-term financial period 1993–1999 brought also new challenges. The first one was the effect of the Europe-wide recession in the first years of the period. As a consequence of this – and in connection with the Maastricht criteria – the question of budgetary discipline has become even more important than before.

The other big challenge was the enlargement of the EU in 1995. On the one hand, this enlargement was much less complicated than the Southern ones in the 1980s: all the three new members – Austria, Finland and Sweden were richer than the EU average and became thus net contributors of the common budget. This meant that resources have become more abundant, and the expenditure items have also become proportionally bigger.

As a result of the accession negotiations, however, the accession also meant additional burden for the common budget. The new members have obtained financial compensation for the first years of their membership. A more durable factor was the creation of Objective 6 of the Structural Funds (the financial support of Northern regions with very low population density (max. 8 persons/km²).

Despite the less favourable economic conditions, the Delors II. package has been successful. Concerning expenditure, figures in the budget were very close to the ceiling until 1996, but the real use of the expenditure figures was not always high; from 1997, the margin under the ceiling became more important and real use became higher. Concerning own resources, after 1996, there was an increasing margin under the ceiling, and an important restructuring of the weight of resources have gone through: by the end of the mid-term period, the GNP-resource became the most important own resource of the common budget. Last, but not least there was a

considerable improvement of co-operation between the institutions; as a result, budgetary debates and conflicts have become better manageable.

The Delors II. package has thus fulfilled its mission: it consolidated the achievements of the Delors I. package, and was able to adapt it to the new challenges of the 1990s. By the end of the decade, an even newer challenge became visible: that of the eastward enlargement of the EU. The Union had to find a budgetary solution for this challenge in the next mid-term financial perspective (2000–2006); how the solution was found, we will discuss in the next point.

3. THE FINANCIAL PERSPECTIVE 2000–2006: BUDGETARY CONSEQUENCES OF THE EASTWARD ENLARGEMENT

In addition to the “traditional” conflicts, in the 1990s, the main “menacing” factor was the future eastward enlargement of the EU. After having established general political and economic criteria for membership for the Central and Eastern European countries (CEECs) in 1993 in Copenhagen, the EU committed itself to the eastward enlargement. Calculations of possible budgetary effects have been numerous, but the first official figures – proposals – came out only in 1997, in the document called Agenda 2000. This document had a decisive impact on the debates of the following years, leading to the membership of 10 new states (among them 8 CEECs) on 1 May 2004.

3.1. From the proposals to the agreement

In order to prepare the next mid-term financial perspective (for the period 2000–2006), the European Commission has issued three documents in 1997–1998: the document “Agenda 2000: for a stronger and wider Union” in July 1997, an actualised and detailed financial plan for the period 2000–2006 in March 1998 and a detailed report on the functioning of the own resources system, including proposals for the future in October 1998.

The main challenges to cope with were the following:

- Decisions had to be taken at the same time on the mid-term financial perspective and on the reform of the Common Agricultural Policy and of the structural operations;
- Due to the stability requirements of the Economic and Monetary Union (the Maastricht criteria), there was no readiness for increasing the ceiling of own resources;
- The problem of unbalanced positions vis-à-vis the EU budget has become more important (concerned more member states) than before;
- The budget had to provide adequate resources for the eastward enlargement of the EU; to make this task even more complicated, the time and the magnitude of enlargement was unknown.

The situation was thus considerably more difficult than in 1992, and this led to much tougher discussions between member states. It took almost two years from the publication of the Agenda 2000, that the European Council in Berlin reached the agreement of member states on the 2000–2006 financial perspective on 24–25

March 1999. The new inter-institutional agreement has been signed in May 1999, while regulations concerning the reform of the Common Agricultural Policy and of structural operations, as well as rules of the Pre-accession Funds have been adopted in May–June 1999. The decision on the rules on budgetary discipline and on the own resources was taken only in September 2000.

3.2. The proposals of the European Commission

One of the main issues was the definition of the framework of financing the common budget. Concerning the volume of expenditure, the Commission proposed to maintain the 1.27% (of Community GNP) ceiling for payments, but found modifications of expenditure items necessary.

In the case of the Common Agricultural Policy, the Commission proposed a considerable decrease of intervention prices, partly compensated by direct payments. Another important element was the growing importance of rural development objectives. For structural operations, the Commission intended to preserve their share in total expenditure in 1999, representing 0.46% of Community GNP. Proposals included thematic and geographic concentration of the actions (the number of Objectives would be reduced to 3), and the simplification of rules and regulations.

Concerning internal policies, the Commission has put the biggest weight on expenditure generating growth and employment (R&D Framework Programme, Trans-European Network, formation and education, protection of the environment, actions aiming at supporting small and medium enterprises). Expenditure on internal policies should grow at the same rate as Community GNP. For external actions, the Commission planned a slower increase of expenditure (this is due to the proposal that a new expenditure heading should contain support for Central and Eastern European candidate countries). For administration, the plan of the Commission did not count on any increase of staff, but had to take into account investments which were already begun (real estate) and the increase of revenues.

The proposals included measures for the eastern enlargement of the Union. The Commission proposed to increase pre-accession financial support for the candidate countries with the reinforcement and the concentration of PHARE on the one hand, and the creation of two new pre-accession funds (SAPARD (Special Accession Programme for Agriculture and Rural Development) and ISPA (Instrument for Structural Policies Pre-accession) on the other hand.

The financing of enlargement (transfers to new members after that they have become members) also appeared in the budgetary framework. As the enlargement process was far from being clear at that time (accession negotiations begun only in spring 1998), the proposal had to use some hypotheses. For the number of acceding countries and the date of their accession, the document used the working hypothesis that six countries would join the EU in 2002. For agricultural expenditure, no direct (compensatory) payments for the new member states were foreseen, thus, the biggest expenditure item for the new member states would have been that of structural operations.

In its report on the financing of the EU (in October 1998) the Commission also proposed some reform options for the system of own resources. Two basic ideas of reform appeared in this document: the possibility of introduction of new own resources on the one hand and the abolishment of the VAT-resource and potentially

of the TOR; thus, the GNP-resource would become the only own resource on the other hand

The Commission also had proposals concerning the UK rebate. More generally, the document dealt with the net budgetary positions of the member states and proposed some options. The first one was the creation of a more simple and more transparent system of financing (e.g. with the abolishment of the UK rebate, with only one own resource (GNP-resource)). The possibility of corrections on the expenditure side (e.g. the co-financing by the member states of direct payments of the CAP) has also been examined, and the idea of a general correction mechanism for (extreme) negative net budgetary balances was also present. Beyond the above proposals, the Commission also proposed the renewal of the inter-institutional agreement.

3.3. The results of Berlin

Debates between member states and EU institutions on the proposals of the Commission took a long time. Agreement was achieved on 24–25 March 1999 at the European Council of Berlin.

The level if Community finances has been stabilised: the ceiling of 1.27% of Community GNP remained valid for payments, expenditure for the EU-15 decreases from 2003 (to 0.97% of Community GNP in 2006 (the reason was that a part of earlier commitments was to be paid in the period 2000–2006, and, as a result new commitments met a more strict limit).

Agricultural expenditure in the financial framework (298 bn € for the period 2000–2006) was lower than that proposed by the Commission. Intervention prices decrease less than proposed; as a consequence, compensation for the price decrease is also smaller. Some proposals of the Commission (the co-financing of direct payments by member states, the degressivity (in time or according to farm size) of direct payments) have not been accepted:

Structural operations received smaller amounts than proposed by the Commission: for the Structural Funds, 195 bn €, for the Cohesion Fund, 18 bn € for the period 2000–2006). Proposals concerning concentration, distribution and regulation have been accepted.

In the other expenditure categories, ceilings are considerably lower than proposed by the Commission (for internal policies, external actions and administration). Amounts proposed for the pre-accession funds as well as the estimated budgetary costs of enlargement, however, have been accepted without changes.

There was no major change in the system of own resources: all reform options for re-balancing budgetary positions were refused. Smaller changes include the decrease of the maximum rate of the VAT-resource (to 0.75 % from 2002, to 0.5% from 2004) and the fact that from 2001, 25% of the TOR can be retained by the member states to cover collection costs (instead of 10% earlier). The UK rebate remained – with minor modifications – in force, but Austria, Germany, the Netherlands and Sweden participate in the financing of the UK rebate only with ¼ of their “normal” share; this reduction is financed by the other member states (except the UK).

The new inter-institutional agreement has been concluded in May 1999. It contained some new elements concerning the rules of using the financial framework

(among others, the reduction of earlier “privileges” of structural operations), as well as the elements of the budgetary process (coordination comprising obligatory and non-obligatory expenditure items in all phases of the budgetary process, guidelines established for all categories of expenditure).

At the moment of the decision taken at the Berlin European Council, the Eastward enlargement had still different scenarios. As we could see it, the working hypothesis of the Agenda 2000 (and of the Berlin Presidency Conclusions) was the entry of six new member states into the EU in 2002. Nevertheless, the member states left open the possibility of other scenarios. This made the financing of the accession of 10 new member states possible – with modifications due to the changes in the time and scope of the enlargement, but still (with one important exception: a partial and gradual integration of the new member states into the system of direct payments of the Common Agricultural Policy) on the basis of the agreement reached in Berlin.

4. THE FINANCIAL PERSPECTIVE 2007–2013: ORGANISED CHAOS

Tensions around the 2007–2013 financial perspective have been there even before the publication of the proposal by the European Commission. The letter of the six net contributors (Austria, France, Germany, the Netherlands, Sweden and the UK) on 15 December 2003 was an early warning about the intensity and the nature of the debates to follow. The limitation of the size of the budget according to the letter of the six would have consequences for the content of the expenditure – no wonder that first of all the less developed member states began to worry.

The proposal of the European Commission – published on 10 February 2004 – contained some general elements. The ceiling of the budget was proposed to be left at the present level (1,24% of GNI for payment appropriations), but the Commission proposed the increase of spending: 2007–2013: 1.14% of GNI on average (for comparison: the 2004 spending level was 0,98% of the EU GNI). The length of the financial perspective was proposed to be 7 years until 2013; after that year, 5-year periods (in order to be synchronised with the political (institutional) periods of the EU were proposed.

Proposals concerning the revenue side included the possibility of the introduction of an EU-tax; three alternatives (corporate tax, a new kind of VAT-based tax, energy tax) have been mentioned. The Commission also proposed a generalised compensation (rebate) system in order to avoid excessive net contributor positions, instead of ad hoc solutions; the system would have included general limits (for contributions/GDP ratio), and general rules for compensation.

Proposals concerning the expenditure side contained the following – partly new – priorities:

- Sustainable growth
 - Competitiveness for growth and employment
 - Cohesion for growth and employment
- Preservation and management of natural resources
 - Agriculture, fishery, environment
- European citizenship
 - The area of freedom, security and justice

- More content for European citizenship
- Access to basic goods and services
- Strengthening of European culture and diversity
- The EU as a global partner
 - The EU and its neighbourhood
 - The EU as a partner in sustainable development
 - The EU as an international policy actor
 - The policy mix to be used by the EU

The proposal of the European Commission seemed already to be a compromise between increasing needs and decreasing readiness to face the challenges. Many analysts have at that time predicted that the final size of the budget – on average between 2007–2013 – will be somewhere in the middle of the range of 1.00–1.14% of GNI (regarding payments). Debates intensified under the very ambitious Luxembourg presidency, and the new proposals went into this direction, indeed.

In the end, however, no compromise has been reached on the Brussels European Council on 16–17 June 2005. Even the readiness for compromise of some member states – including first of all Germany, but also the spectacular last minute offer of six new member states – was not enough to reach consensus. The key problems unresolved were the following:

- The problem of net contributions emphasised mostly by the Netherlands and Sweden. Their net contribution related to their GNI is much higher than that of the other member states, therefore they are urging for a change in the system, or for a correction for them (a la UK rebate). Quite logically, they are – especially if nothing changes – interested in a relatively small EU budget.
- The UK rebate. Originally, this item was a solution of the problem of the excessive net contributor status of the UK, first of all due to the high share of CAP payments in general, and their low share in the case of the UK. At that time, the UK was a relatively less well-to-do member state (in the EC of 10 countries in 1984, the year of the Fontainebleau European Council). Even if expenditure shares in the EU budget have been changing by now (the relative weight of the CAP is decreasing), and even if the UK is one of the richest member states in the EU–25, the UK rebate is still there; British Prime Minister *Tony Blair* made it clear that he is only ready to negotiate about a limitation of this item if such a step is connected to a decrease in CAP expenditure.
- The CAP expenditure. The amount of agricultural spending has been agreed in October 2002 by French President *Jacques Chirac* and German Chancellor *Gerhard Schröder*, and after that by all the member states. The agreement fixed the amount of agricultural spending until 2013. France was not agreeing to reopen the question of these amounts (although in the final phase of the negotiations it did not exclude that CAP transfers for Bulgaria and Romania could be included into the framework agreed in 2002).

Most member states blamed the UK on the first place for the failure – the country which took over the presidency from Luxembourg on 1 July 2005.

Expectations concerning an agreement on the financial perspective have therefore not been very high, and especially not, when the British did not show any sign of presenting a proposal in the first months of their presidency.

The UK Presidency issued its first proposal for the financial framework 2007–2013 on 5 December 2005. The reactions to this proposal, putting the level of total commitment appropriations to 1.03% of GNI, have been overwhelmingly negative. The second proposal of the UK presidency came out nine days later, just one day before the Brussels European Council (15–16 December). This proposal contained only a slight increase (with a bit more than € 2 bn) of total commitment appropriations, but proposed for almost every country some specific treatment (including lower co-financing rates, the possibility of the “n+3” rule (instead of “n+2”), capping on VAT-source payments etc.). Some of the member states’ leaders have expressed their dissatisfaction with the second proposal, but the overall atmosphere has become more optimistic for the beginning of the summit. It was obvious that the UK still had something to offer – the question was whether the main opponents of the first and second proposals would be strong enough to use (and if yes, to what extent) this room of manoeuvre.

We know now that the answer to the above question is yes, and we also know the extent: it is those € 13.2 bn that have been proposed by German chancellor *Angela Merkel*, and approved both by the British and the French, the two countries, whose long-term interests have been most opposing each other. The agreement satisfied the net recipients (they saved a lot of what could have been lost), and also the net contributors of the EU budget (they achieved specific conditions in various respects). The deal was especially positive for the new member states, whose financial support can increase substantially with the beginning of the new financial perspective.

The agreement has been reached at the level of 1.045% of EU GNI concerning commitment appropriations; regarding payment appropriations, this means about 1% (at the moment of the finalisation of the present paper, no official calculation concerning appropriations for payments was available). This means that the six net contributors, who wrote their letter two years ago, have reached their objective, and at the same time, most net beneficiaries are also satisfied with the results. The UK plays the big loser’s role, with renouncing of € 10.5 bn from its rebate for the 2007–2013 period, however, this is only a loss with regard to the amount which would have been substantially increased (due to the financing of transfers to the new members), if the present calculation method had remained unchanged. Finally, the political “hero” of the negotiations is Angela Merkel; her entry into the European politics has been an impressive one and contributed considerably to the success of the very pragmatic UK approach.

With the agreement, the EU solved one of its short-term (and also mid-term) homeworks. However, the long-term challenges of the EU budget have remained practically untouched. The fact that a review of the budget (and, first of all, of Common Agricultural Policy expenditure) is possible from 2008–2009 (but with no effect before 2014), is not exceptionally promising: good ideas and also well-elaborated studies about possible reform options exist for years (or decades). Regarding from outside, the debate 0.01–0.02% of the European GNI can look ridiculous, and it is clear that the agreement does not solve in any case the long-term problems of the EU. The result we have got after the Brussels summit in December 2005 is a temporary solution, which created a jungle of specific regulations and conditions, still on the basis of the Delors packages, already modified and

complicated by the Agenda 2000 (this jungle is the main reason why we do not provide a list of the main results of the summit here: to put it simply, it is not a system, but a set of different exceptions from the system; for an illustration of this statement, we present some elements of the “jungle” in the Appendix). The tension has not been high enough to create a new system; this task is to be done – in the best case – for the financial perspective beginning in 2014.

5. CONCLUDING REMARKS

In this paper, we presented the four “milestones”, the four main packages related to the mid-term financial perspectives. The first one (the Delors I. package) has created the basic features of a system that has been later adjusted according to the first experiences of its functioning (by the Delors II. Package), adapted to the (minimal) financing of the beginning of the Eastern enlargement process (by the Agenda 2000), and, just some days ago, modified in order to be able to serve the (by far not optimal, but still satisfactory) functioning of the EU–25, later EU–27 (by the agreement reached in December 2005 by the UK Presidency).

After having examined these four important packages, the tendency is clear: in 1988, a new system was born, then it was modified from time to time, and for today, we arrived at a point, where the system is hard to be seen because of the jungle of modifications. At earlier adjustments, the EU cared to present them as a consequence of a general feature (e.g. transfers for sparsely populated areas); in the financial perspective 2007–2013, even this approach is absent in many cases (see the Appendix for some examples), and the ad hoc solutions make the once well-functioning system chaotic.

Of course, it is true that the world has changed since 1988, and the rules of the financial perspectives have to reflect the changes. But at least after the UK Presidency it is time to think about creating a new system, because further complications of the old system will not be able to ease the long-term tensions. The success of the very pragmatic UK approach to the question of the financial perspective 2007–2013 gives the EU valuable time to prepare itself for a new system. But time is running fast – it is now that we have to begin to think about how it should look like, if we are interested in making Europe dynamic, innovative and competitive on the long run.

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APPENDIX

SOME ELEMENTS OF THE BUDGETARY „JUNGLE” 2007–2013

„MAXIMUM LEVEL OF TRANSFERS FROM FUNDS SUPPORTING COHESION

40. In order to contribute to the objectives of adequately concentrating cohesion funding on the least developed regions and Member States and reducing disparities in average per capita aid intensities resulting from capping, the maximum level of transfer to each individual Member State shall be as follows:

- for Member States whose average 2001-2003 per capita GNI (PPS) is under 40% of the
EU-25 average: 3.7893% of their GDP
- for Member States whose average 2001-2003 per capita GNI (PPS) is equal to or above
40% and below 50% of the EU-25 average: 3.7135% of their GDP
- for Member States whose average 2001-2003 per capita GNI (PPS) is equal to or above
50% and below 55% of the EU-25 average: 3.6188% of their GDP
- for Member States whose average 2001-2003 per capita GNI (PPS) is equal to or above
55% and below 60% of the EU-25 average: 3.5240% of their GDP
- for Member States whose average 2001-2003 per capita GNI (PPS) is equal to or above
60% and below 65% of the EU-25 average: 3.4293% of their GDP
- for Member States whose average 2001-2003 per capita GNI (PPS) is equal to or above
65% and below 70% of the EU-25 average: 3.3346% of their GDP
- for Member States whose average 2001-2003 per capita GNI (PPS) is equal to or above
70% and below 75% of the EU-25 average: 3.2398% of their GDP
- thereafter, the maximum level of transfer is reduced by 0.09 percentage point of GDP
for each increment of 5 percentage points of average 2001-2003 per capita GNI (PPS)
as compared to the EU-25 average.

In the case of Romania and Bulgaria this shall be without prejudice to paragraph 2 above.

In order to reflect the value of the Polish zloty in the reference period, the result of the application of the cap above for Poland will be multiplied by a coefficient 1.04 for the period up to the review referred to in paragraph 42 (2007-2009).”

(...)

„ADDITIONAL PROVISIONS

(...)

46. Notwithstanding paragraph 40, the Polish NUTS level II regions of Lubelskie, Podkarpackie, Warmínsko-Mazurskie, Podlaskie and Świętokrzyskie, whose per capita GDP levels (PPS) are the five lowest in the EU-25, shall benefit from funding from the ERDF over and above the funding to which they are otherwise eligible. This additional funding will amount to € 95 per inhabitant over the period 2007-2013. Any upward adjustment of the amounts allocated to Poland pursuant to paragraph 42 shall be net of this additional funding.

46bis Notwithstanding paragraph 40, the NUTS level II region of Közép-Magyarország shall be allocated an additional envelope of €140 million over the period 2007-2013. For this region the same regulatory provisions would apply as for the region in paragraph 38(a).

46ter Notwithstanding paragraph 40, the NUTS level II region of Prague shall be allocated an additional envelope of € 200 million over the period 2007-2013.

47. Recognising that on the basis of revised figures for the period 1997-1999 Cyprus should have been eligible for Objective 1 in 2004-2006, Cyprus will benefit in 2007–2013 from the transitional arrangements applicable to the regions defined in paragraph 38 (b), its starting point in 2007 being established in accordance with paragraph 45.

48. The NUTS level II regions of Itä-Suomi and Madeira, while keeping the status of phasing-in regions, will benefit from the financial transitional arrangements laid down in paragraph 39 (a).

49. The NUTS level II region of the Canaries will benefit from an additional envelope of € 100 million over the period 2007-2013.

50. The outermost regions identified in Article 299 of the Treaty and the NUTS level II regions fulfilling the criteria laid down in Article 2 of Protocol No 6 to the Treaty of Accession of Austria, Finland and Sweden shall, in view of their specific constraints, benefit from additional funding from the ERDF. This funding will amount to € 35 per inhabitant per year and will be in addition to any funding to which these regions are otherwise eligible.

51. As far as allocations under the Territorial Cooperation Objective are concerned, aid intensity for regions along the former external terrestrial borders between the EU-15 and the EU-12 and between the EU-25 and the EU-2 will be 50% higher than for the other regions concerned.

52. In recognition of the special effort for the peace process in Northern Ireland, a total of € 200 million will be allocated for the PEACE Programme for the period 2007-2013. This programme will be implemented in full respect of additionality of structural fund interventions.

53. The Swedish regions falling under the Regional Competitiveness and Employment Objective shall be allocated an additional ERDF envelope of € 150 million.

53bis Notwithstanding paragraph 40, Estonia and Latvia, which represent single NUTS II regions, shall be allocated additional funding of € 35 per capita over the period 2007-2013.

54. The Austrian regions falling under the Regional Competitiveness and Employment Objective situated on the former external borders of the EU shall be allocated an additional ERDF envelope of € 150 million. Bavaria shall be allocated a similar additional envelope of €100 million.

54bis Spain shall benefit from an additional allocation of € 2.0 billion under the European Regional Development Fund, to enhance research and development by and for the benefit of enterprises as set out in articles 4.1 and 5.1 of the ERDF regulation. The indicative split shall be 75% for convergence objective regions (of which 5% for phasing-out regions) and 25% for competitiveness objective regions (of which 15% for phasing-in regions). These percentages may subsequently be amended at the initiative of Spain at any point before the adoption of the Structural Funds General Regulation.

54ter Ceuta and Melilla shall be allocated an additional ERDF envelope of € 50m over the period 2007-2013.

54quater Italy will be allocated an additional envelope of EUR 1.9 bn under the Structural Funds as follows: EUR 1.71 bn for the regions eligible under paragraph 22, EUR 57 m for the region eligible under paragraph 38(a), and EUR 133 m for the regional eligible under paragraph 38(b).

54quinto In recognition of the particular circumstances of Corsica (30) and Hainaut français (70), France shall receive an additional allocation of €100m over the period 2007-13 under the regional competitiveness and employment objective.

54sexto An additional allocation of EUR 300m shall be allocated to the Eastern Länder of Germany which are eligible for support under the Convergence objective, of which EUR 78m shall be allocated to regions eligible for support under paragraph 38(a)."

(...)

„CHANGES TO THE OWN RESOURCES DECISION

78. The Own Resources Decision and the accompanying Working Methods paper shall be modified so that the ratification process for the Own Resources Decision can be completed by all Member States to allow entry into force from no later than the beginning of 2009 and in order to introduce the changes below. These changes shall take effect from 1 January 2007, and will be applied retroactively if necessary:

(a) the rate of call (in effect the "uniform rate") of the VAT resource shall be fixed at 0,30%;

(b) for the period 2007-13 only, the rate of call of the VAT resource for Austria shall be fixed at 0.225%, for Germany at 0,15% and for the Netherlands and Sweden at 0,10%;

(c) for the period 2007-13 only, the Netherlands will benefit from a gross reduction in its annual GNI contribution of € 605 million. Sweden will benefit from a gross reduction in its annual GNI contribution of € 150 million over the same period;

(d) The UK budgetary correction mechanism (the UK abatement) shall remain, along with the reduced contribution to the financing of the abatement benefiting Germany, Austria, Sweden and the Netherlands, as agreed at the 1999 Berlin European Council. The UK abatement remains in full on all expenditure except in relation to the new Member States as set out below.

Starting in 2013 at the latest, the UK shall fully participate in the financing of enlargement costs for countries which have acceded after 30 April 2004 except for CAP market expenditure¹. To this end the UK budgetary mechanism shall be adjusted by progressively reducing the total allocated expenditure in line with the modalities in Annex II.

During the period 2007-2013 the additional contribution from the UK shall not be higher than 10.5 billion euro, in comparison with the application of the current Own Resources Decision.

In case of future enlargement the additional contribution referred to above will be adjusted accordingly (except for Romania and Bulgaria)."

¹ Direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF guarantee section.

Source: UK Presidency, Financial Perspective 2007–2013, Brussels, 16 December 2005, provisional version.

