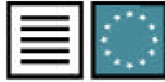

GROUPEMENT D'ÉTUDES ET DE RECHERCHES

NOTRE EUROPE

**President: Jacques DELORS**

# REFORM OF EU POLICIES IN THE PERSPECTIVE OF ENLARGEMENT AND THEIR FINANCIAL IMPLICATIONS

**Seminar organised by**

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The association also organises meetings, conferences and seminars in association with other institutions or partners. Proceedings are written in order to disseminate the main arguments raised during the event.

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## FOREWORD

On April 18th 2002, Notre Europe and the European Policy Centre organised a meeting in Brussels of around 20 experts to look at the current state of discussion on the budgetary perspectives of an enlarged Union.

Although rich in ideas, the debate was obviously not conclusive and the departure of its organisers led us to postpone the publication of the meeting report. The agreements of Brussels and Copenhagen at the end of 2002 brought a new dimension to these budgetary questions and may have made the material of the April seminar obsolete.

Marjorie Jouen agreed to study this material and bring it up to date in the light of the Brussels and Copenhagen European Council meetings. She comes to the strong conclusion that, in a context unsettled by the conclusion of the negotiations with the candidate countries, the modifications of the budgetary context create the conditions for what she calls a *big bang*. While this conclusion does not in any way engage the other participants of the seminar, it is sufficiently well argued to interest Notre Europe's readers.

It is in this spirit that we publish today this discussion paper, along with the introductory note of the seminar, to which it refers, by Lluis Navarro.

Notre Europe

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# THE UNION ON THE THRESHOLD OF A BUDGETARY BIG BANG

Marjorie JOUEN

(January 2003)

The purpose of the seminar was not to come up with new proposals, but rather to discuss and assess the nature of existing ones, identify the forces at work and expose any hidden agendas. In fact, the discussions brought out the full scale of the issues affecting the three main chapters of the Community budget: structural policies, which account for a third of expenditure, the common agricultural policy, which amounts to approximately 40%, and the other Community policies. The discussions also exposed the constraints to which these three chapters are subject. The content of the CAP's mid-term review was not yet known at the time of the seminar, but the main points of deadlock and compromise of the October European Council could already be surmised from the exchanges which took place between the experts. Furthermore, the seminar gave some insights into the major events awaiting the Union up to the end of 2004, and in particular those related to the impending enlargement and to institutional reform. By then, the first ten candidate countries will have joined the Union. If the European Convention submits its results on schedule and the Intergovernmental Conference makes rapid enough progress, a new framework will have been provided for the Union's policies, the European Parliament's powers will probably have been expanded, and the Union's own resources might even have been increased. A new institutional and financial landscape could well be emerging when the new Commission, to be appointed a few months after the European Parliament elections, starts preparing the next "package" for the period 2007-2013.

The seminar came to a unanimous yet disturbing conclusion. The considerations that prevailed at the time of the Delors I package in 1988 are no longer valid, nor are those which

governed the agreement concluded in Berlin in 1999. The boundaries within which the 2007-2013 financial package will be negotiated are still largely unknown. Hence the speculative nature of any analysis in this area.

This independent paper was drafted just after the European Council meeting held in Copenhagen on 12 and 13 December 2002. It is largely based on the thoughts expressed during the April seminar, while including certain more recent details. Without claiming to predict what shape the overall package will eventually take with 25 or 27 players around the table, the analysis below will hopefully give a better understanding of the ins and outs of future negotiations.

## 1 – Cohesion policy: the old story of the ant and the grasshopper, without any renewal spirit

Where structural measures are concerned, it is fair to say that negotiators began taking account of the future enlargement as early as 1999. The issue was provisionally settled with the adoption of two distinct appropriations: one for pre-accession and the other for accession. At the beginning of 2002, however, the Commission reopened the debate by proposing adjustments to the budgetary allocations to reflect the fluctuating progress in negotiations. This caused the advocates of discipline in the Community budget to move towards more radical positions. Discussions on the issue had steadily become more sophisticated and intense since the 1999 Berlin agreement, when there had been some dissatisfaction with the importance given to budget considerations and the lack of innovation in the Commission's Agenda 2000 proposal. As a consequence, Commissioner Barnier very quickly – perhaps too quickly – started a debate on the content and purpose of the future cohesion policy.

Meanwhile, the prospect of the accession of the 12 candidate countries gradually took shape and its impact on the financial balance of structural measures became a crucial factor. The Union's inclusion of 105 million new citizens by 2007 would entail a doubling of its regional disparities and an 18% drop in its per capita GDP.

The implications are clear to the current beneficiaries of the cohesion policy: virtually all of certain countries (such as Spain, Portugal and Greece) and a number of regions that are still lagging behind (such as Italy's Mezzogiorno, eastern Germany and western Ireland). Suddenly deemed wealthy by virtue of statistical aggregation, they will have to step off the Brussels gravy train. The problem has been anticipated by the Spanish government, which has secured assurances that the next structural package will be adopted on a unanimous vote. But that is the only safeguard the Member States have regarding the future of cohesion policy, since all other attempts to link completion of the accession negotiations to an agreement on structural financing after 2007 have come to nothing.

As for the governments of other Member States, they are torn between their regions, which want to pursue the dialogue with Brussels through the granting of some funds, and their budget authorities. As might be expected, the latter are arguing for the prompt termination of a policy that is intrinsically costly, since solidarity always benefits the poorest. These countries' position as net contributors will thus at best remain level, and may well worsen. These States are therefore ducking the issue by standing firm on the total amount of spending, irrespective of any economic arguments. The outcome seems cut and dried: the cake will have to be shared out among a larger number of guests, but without getting any larger.

A battle – of words for the moment – is thus developing between the "ants" and the "grasshoppers".

The ants can easily base their position on evaluation studies, yet these studies are frequently unconvincing and inconclusive – in particular since they attempt to analyse the economic

effectiveness of certain programmes which were never designed for that purpose. Qualitative considerations such as improving governance and fostering a spirit of European belonging are brushed aside as being of little relevance. Set against nationalist and centralising concerns, the provision of Community assistance is seen as counter-productive and disruptive since the methods for using the funds compete with the established administrative and political order.

Lack of efficiency is another criticism levelled at the cohesion policy. Three years after they were launched, the new programmes and the pre-accession instruments are not yet operating smoothly. Excessive red tape and monitoring are stifling initiative, and the available funds are quite simply not being taken up. Some evaluation reports have shown that the procedures designed to prevent misuse of funds are so sophisticated that they are having a paralysing effect. Furthermore, the political momentum introduced by the Structural Fund system in the early 1990s is being lost. The cohesion policy as it stands today is no longer able to deliver innovation.

Meanwhile, the grasshoppers, having failed to make good use of the funds awarded over a period of 10 years, are showing fatalism – or naivety – in taking the assistance for granted. The qualitative and political arguments they are putting forward are all unacceptable to the proponents of budgetary discipline. Establishing alliances with other disadvantaged regions and countries – from among the candidate countries – could perhaps be a strategy for the current beneficiaries, albeit an improbable one since they are in effect competing in an open market.

Some regions have chosen to up the ante. Being unable to rely on indicators of backwardness, they are trying to introduce other criteria such as geographical position. Their argument is that the economic centre of Europe is moving towards the east, to the disadvantage of outlying regions in western Europe. The latter should therefore be compensated for this geographical handicap. Though valid in economic terms, this approach presents a risk that is all too clear to

European political leaders. These have no desire to encourage an endless shopping list of assistance-worthy regions including mountain areas, coastal regions, wetlands, low-population areas, urban areas in crisis, rural areas facing depopulation and industrial decline, border regions, islands, arid areas, regions close to the Arctic, most remote areas, etc.

Other conflicts of an apparently more technical nature can be defused and the arguments behind them refuted. With respect to eligibility, the successive negotiations have led to an accumulation of criteria whose main purpose is to secure funds. Some clarification is required. Yet there is no overriding economic reason for choosing either the national or the regional level for this purpose. Given what we currently know about the effects of structural assistance, all arguments are valid. In practice, the main effect of opting for the national rather than regional level for the purposes of assessing eligibility under Objective 1 is to exclude the disadvantaged regions of moderately wealthy countries and achieve a substantial reduction in the beneficiary population. The subsidiarity principle is therefore being invoked solely to justify a budget policy. Even though the experts regard per capita GDP as an unsatisfactory eligibility criterion and would prefer using a more broadly-based indicator to assess the overall competitiveness of a region, per capita GDP is likely to be retained since research in this area has yielded no suitable substitute.

Though it is sometimes expressed in very radical terms, there is a widely admitted need to adjust the rules for regions that will no longer be eligible under Objective 1 owing to enlargement and the drop in the Community averages. For political reasons, generous phasing-out conditions will probably also be granted to regions that cease to be eligible following a genuine improvement in their level of development.

As for the overall level of structural spending, the experts remain unconvinced both by arguments for a reduction to 0.35% of the Community GDP – the amount currently spent – and by calls for an increase to 0.65% in order to satisfy the needs of all regions that are

lagging behind. They readily admit that the 0.45% ceiling is unnecessarily dogmatic and has no economic or legal justification. Likewise, the maximum "absorption capacity" rate set at 4% in Berlin has no basis in theory. This rate depends on the ability to react and degree of organisation of the administrative authorities, which bear no necessary relation to the level of GDP. It should therefore not be the subject of an inflexible rule. At the end of the day, what the Member States must indicate is the importance they wish to accord to solidarity within the Union. The level and nature of financial and technical resources derive directly from this policy decision.

But some creativity is also required to define the shape of a new cohesion policy demonstrating the Community's added value. And imagination is precisely what is most lacking in the current debate. One way forward is to identify the needs and try to respond to them, but problems may be encountered by regions in the future 27-member Union that cannot be addressed by the Structural Funds and will require other forms of assistance (see Part 3). For the candidate countries, the experience of the cohesion countries is quite instructive and suggests the need for certain reforms. The requirement for certain forms of investment (including within the framework of the single market) could justify 100% Community financing. A uniform cofinancing rate would therefore not be desirable. While useful for large projects, the Cohesion Fund and ISPA[1] are not in themselves able to start a virtuous circle of development. Regional development programmes are. The current balance between these two forms of Community assistance should more or less be preserved, the Cohesion Fund amounting less than 30% of the total envelop. Another need specific to the candidate countries is administrative adjustment. Twinning schemes are helpful, but far from sufficient. In this context, a question worth asking is whether the European Social Fund,

[1] Structural Instrument for Pre-Accession

whose purpose is to develop human resources in the productive sector, could not also cover public services.

Little thought has been given thus far to what a large internal market of 25 or 27 members will be like. Recent assessments have highlighted the significant indirect benefits – amounting to 25% of the funds granted – accruing to the wealthier countries in the form of orders and exports, thanks to Structural Fund assistance[2]. Other studies have attempted to assess the macroeconomic benefits of enlargement at national level[3]. They have shown that enlargement of the single market will have very diverse impacts on the various regions and sectors. It would perhaps be useful to provide assistance for the weakest areas and compensate for certain effects concentrated in specific economic sectors or geographical areas.

On a more general level, besides the development gap, three types of regional problem can be envisaged in an enlarged Europe:

- loss of competitiveness associated with painful restructuring (in the industrial and agricultural sectors),
- geographical handicaps stemming from an outlying position,
- and shocks caused by economic integration. These may be concentrated in specific areas (such as border regions) or sectors on account of the spread of the euro. For the latter two problems, the content of Community assistance can easily be devised and its added value is hard to challenge.

On the other hand, the Union is still ill-equipped to deal with the economic restructuring problems that are characteristic of Objective 2 regions. Approaches other than those of the Structural Funds will probably be necessary. While the experience of the European employment strategy was deemed inconclusive by a number of experts, who felt it was too

[2] "The Economic Impact of Objective 1 Interventions for the Period 2000-2006", Report to the Regional Policy DG, J. Beutel, 2002

[3] Economic and Financial Affairs DG.

bureaucratic and ultimately insufficiently binding, the open method of coordination could perhaps offer a better way of overcoming the lack of governance affecting these regions. It would certainly make it possible to take a differentiated approach to the various European regions, whose diversity is increasing in economic, social and geographical terms. It would also allow each region to move forward at its own pace, while allowing common policy guidelines to be set.

The picture would not be complete if we omitted to mention the outcome of the budget negotiations at the Copenhagen summit. Massive redistribution in the form of "cash-flow facilities" was eventually granted to the governments of the candidate countries. This bodes ill for compliance with the methodological discipline that had hitherto governed the granting of Community assistance (multi-annual programming, partnership, additionality).

## 2 – The common agricultural policy: a show of consensus on reform, but irreconcilable interests

The CAP budget has been a bone of contention since the end of the 1990s – because of the nature and effects of the assistance on the one hand, and the amount of agricultural spending on the other.

As regards content, the 1999 Berlin agreement did not cure all the ills the CAP is frequently blamed for – distorting international competition, polluting the environment and undermining food safety. It merely provided a temporary solution that made it possible to move towards greater compliance with the rules of the World Trade Organisation (WTO). These demand substantial reductions in anything that can be construed as a barrier to global trade in agricultural and food products (such as export refunds, direct aids and market price support)

and the concentration of assistance on grants which place greater emphasis on the other services rendered by agriculture.

The decisions taken in Berlin were also intended to address the criticisms made of intensive agriculture, which must cease poisoning and polluting. Since 2000, the CAP budget has therefore been the subject of an extensive redirection exercise that has consisted in strengthening the much vaunted section devoted to rural development measures, known as the "second pillar", while winding down the "first pillar", which is devoted to market price support and is so criticised by ecologists and proponents of budgetary cutbacks alike. It is worth mentioning that annual agricultural spending currently consists of 36.2 billion euros for market price support (65% of which is in the form of direct payments) and 4.2 billion euros for rural development.

On the face of things, the need to continue along the path taken in 2000 and carry out root-and-branch reform is broadly accepted by the experts and by governments and ordinary citizens. This implies, on the one hand, reducing assistance to intensive agriculture (i.e. decoupling support from production and making some efforts to cap subsidies) and, on the other, providing greater assistance for "alternative" farming (smallholdings and organic farms). However, this apparent consensus dissolves in practice, and there are many opponents to the reforms. Opposition relates to the scale of the assistance, the timetable, the objectives sought and the final beneficiaries. These four points, which were still unknown quantities in April, have since been gradually clarified: first in early summer, when Commissioner Fischler submitted his initial proposal for a mid-term review, then at the October European Council meeting in Brussels, and again in Copenhagen, last December. We will return to this later.

Combining this issue with the enlargement negotiations mainly revolved around the financial question, which is the other consideration in CAP reform. Unlike what happened for the

structural measures, the situation of the candidate countries was not properly taken into account in the financial package agreed in Berlin. The question of enlargement-related agricultural spending was settled by providing only for rural development assistance for the accession States. However, the Commission came back on this decision in January 2002 by proposing to establish reduced-rate direct aid for farmers in the new Member States, in addition to assistance for rural development. In doing so it opened Pandora's box, even though the idea of different treatment for the accession States seemed discriminatory and hard to achieve. Some budgetary sleight of hand made it possible to satisfy all parties without breaking through the budget ceiling agreed in Berlin, but the structural measures had to be sacrificed as a result.

In the short term, rather than a major financial problem, enlargement in relation to the CAP has revived an old but nonetheless recurrent debate on the nature of European agriculture. Following the accession of Poland in the very near future, and of Romania and Bulgaria a little later, the working population in the agricultural sector will increase by 140% and the usable agricultural area by 44%, while output will rise by only 12%. When Portugal and Ireland joined the Union, the social problem posed by rural economies went virtually unnoticed because those countries' populations were small. This will not be the case for the central and eastern European countries (CEECs). The challenge for the EU and its pattern of agriculture goes beyond the rhetoric on typical family farms inherited from the 1960s, which changed to the point of accommodating only competitive farming, and then moved on to the current concept of multifunctional agriculture. Will this new concept make it possible to modernise the – still densely populated – rural areas of the CEECs without causing an exodus and subsequent influx of jobless people into the cities? The days when industry was in search of low-skilled labour have gone. Nevertheless, the CEECs are not limited to subsistence farming; they also have a potentially competitive and intensive agricultural sector based on

large farms. That sector could become extremely destructive if it enjoyed continued access to CAP assistance. It should receive the same treatment as western European agriculture if we are to avoid an explosion in agricultural spending after 2006.

On the strength of this analysis, the nature of the probable compromise on a common negotiating position could be seen as early as last spring: the phasing in of direct payments to CEEC farmers would have to be counterbalanced by a phasing out. In other words, the net contributor countries would not accept the granting of this direct assistance – even at a reduced rate – unless a decision was taken, or at least mooted, to make a substantial cut in the direct assistance paid to farmers in the current Member States. This "exit signal" was indeed given with the October 2002 compromise between France and Germany, providing for stabilisation of market support expenditure for the 25 Member States at the level reached in 2006. The question of the volume of assistance is thus apparently resolved, as is that of the timetable: comprehensive negotiation including the Structural Funds will take place in 2005.

Discussion on the objectives of the reform is still ongoing and, perhaps even more than that on the cohesion policy, is clouded by hidden agendas and diametrically opposed ideological positions. The CAP is still being looked on with cupidity, not only within the Union, by European farmers and processing industries, but also outside it, in the context of global trade: the economic dimension of farming is undoubtedly far more important than its regional dimension. Several models of agriculture are competing, and the less commendable among them sometimes disguise themselves so as to blend in with those we find more palatable. Ecologists have, for instance, found themselves rubbing shoulders, in the name of food safety, with the proponents of trade liberalisation and production standardisation. We have also seen the agri-food industry, anxious to obtain raw materials at low cost whatever the source and production methods, plead for the harmonisation of food standards and present intensification of production methods as a necessary trend to satisfy the needs of the poorest consumers.

This kind of economic calculation shows how difficult it is to grasp the real extent of the changes that could result from the reform. Will it succeed in changing the behaviour of producers and curb the trend towards concentration and intensification? Or, on the contrary, will it accelerate the trend, as farmers in the least-productive regions seem to fear?

With respect to the end-beneficiaries of the reform, the debate also involves other players: the general population and economic agents outside the agricultural sector. The last ten years have shown just how many interests are at work and how extensive the financial problem is. We can no longer merely deplore the fact that the farming sector has a monopoly over reform of the CAP. We must firmly condemn it.

Despite their name, "rural development" measures still look very much like a cash cow for farmers wanting some kind of recognition in the context of the WTO negotiations. Things could, of course, be different. However, the Commission's current approach, as explained by Commissioner Fischler, is unambiguous. The measures are intended exclusively for farmers. They are designed to improve food quality, ensure compliance with standards, support environmentally sound farming practices, modernise farms and promote diversification into activities such as agri-tourism. Non-farming activities in rural areas therefore receive no support from EAGGF even if they are in regions that are eligible under Objective 1.

Judgement on this approach is less clear-cut in the candidate countries: assistance to farmers is still necessary to preserve the countryside, in areas where farming is neither very productive nor very competitive. In this respect, under the simplified arrangements for the owners of very small farms in the candidate countries, direct payments can be seen as an instrument for social justice which will play a useful role in convincing the general population of the merits of EU accession. The subsidy policy will be all the more welcome since the candidate countries have not yet fully mastered the pre-accession instruments and are implementing them very slowly.

Converting the SAPARD pre-accession instrument into EAGGF assistance would thus appear to be difficult.

When all is said and done, the agreements reached in Brussels and Copenhagen were not unexpected. They have cleared the way for the accession of the ten first candidate countries but also herald sticky negotiations ahead. Furthermore, the Commission sent out three contradictory signals in 2002. In January, it reintroduced direct payments for farmers in the candidate countries even though this form of support was, in principle, supposed to be rapidly phased out. It then tabled an ambitious reform proposal that would go some way towards eliminating such assistance. Lastly, it pushed the Copenhagen negotiations in a very lax direction by authorising the candidate countries to use part of their rural development assistance and their national budgets to increase the direct payments to farmers up to 30%. We cannot therefore help but wonder about the binding nature of the Brussels Council decision , which was already being freely interpreted within the Council only a few days later. What use will this 15-member agreement be in 2006, given that we cannot tell what the balance between the 25 or 27 governments will be by then? What will be the attitude of Hungary and the Czech Republic? Will they follow the Netherlands and Sweden in adopting a free-market approach geared to sparing the public coffers or will they join forces with Germany? And what effect will the involvement of the European Parliament (see Part 3) have on the balance between agricultural and regional development spending?

## 3 – Other Community policies: a new desire to meet increased demands for security

Up to now, the other Community policies have taken up a negligible fraction of the Community budget. Attempts spearheaded by the German government in 1998 to give greater weight to "forward-looking" policies, such as the environment and support for research, were ultimately unsuccessful. However, the current discussions on the future of Europe could well change this state of affairs.

The first factor to consider is the commitment to boost European competitiveness, which entails increased needs for research, innovation and technological investment. These needs are not really new, nor are they of a nature to upset the Community's budget. The net contributor countries will probably not wish to take further action. Since solidarity is to the advantage of the least-advanced countries, the net contributors would not necessarily stand to gain from an increase in Community spending in this area. This is not true, however, of other needs that enlargement to the east and the impending institutional reform have brought to the fore.

There is rising pressure – further increased by the prospect of enlargement and an influx of migrants from the rest of the world – for the establishment of a European security policy and judicial system, with appropriate resources. Making borders secure is a genuine problem for the accession States, and is weighing heavily on their budgets. The EU has already begun helping them with the "Schengen facility". If this approach were to be confirmed, it would run counter to the fundamental Community principle whereby the cost of regulatory policy (standardisation, food safety, etc.) is met by the Member States rather than the Union. This option can of course be chosen but its long-term implications should be properly assessed.

In the field of defence, while no real pooling of forces has yet taken place, research and equipment programmes are being stepped up. Some observers believe it is not improbable that governments which may have to make greater efforts than others might want certain strands of this policy to come under the Community budget. Others contend that the EU could find

itself caught up in an irreversible process if it starts taking on duties that increasingly mirror those of sovereign States. Such moves could put a lasting strain on the Community budget, at the expense of what might be called more "appropriate" Community spending such as ensuring cohesion and asserting the Union's role on the world stage. The ambitions in this area would extend far beyond those of the current Community research and development programmes. Thus the two current "blocs" formed by the CAP and structural measures could well have to make room for other spending, in particular since certain countries which do not benefit very much from these items of spending and the military-industrial lobby will be anxious to make up for the past by signing up for the new areas of expenditure.

Other changes will also be necessary to reflect the substantial disparities in the contribution capacity of the 25 States. Removal of the "British rebate", already mentioned on several occasions during the autumn, will surely be one of the demands of the candidate countries in 2005.

The current debates within the Convention would appear to indicate that the future is far more uncertain on the income side. In principle, the new Member States will not be large contributors but the total budget remains unclear. The plan to give the European Parliament codecision power and the possibility of having a say on income as well as expenditure is setting the stage for an unknown negotiation framework. The CAP may well lose the "untouchable" status it currently enjoys as an item of compulsory expenditure; this would increase competition between the regional and agricultural lobbies, to the benefit of the former, since regional and local issues carry more weight in the European Parliament than in the Council.

Furthermore, as of 2004, the numerical balance between rich and poor countries will radically change and the discussion of the next package will take place during the new Member States' "running in" phase. Following calls from the Greek and Portuguese governments on this issue,

there is bound to be strong pressure for the EU's generosity – i.e. its budget total – to increase. This raises the question of an in-depth reform of the EU's own resources and of the base for a possible European tax. In theory, the Convention is an ideal forum for discussing such plans and correcting the unfortunate tendency, that has been increasing over the last ten years, to link national contributions to GDP. Various proposals have been made on an informal basis, including by Commission experts[4]: taxes on the consumption of polluting products and on financial transactions, etc.

The mind therefore boggles at the thought of the conditions in which the next major budget negotiations will take place.

It will be a game with:

- players whose strategies cannot be predicted at this stage, some of which will be new (the 12 accession countries) and some of which will be different (given that the European Parliament will have a new role)
- new cards, if the Community is to finance peacekeeping and border control measures, internal security and research in the military field
- unknown rules, if the aim is to establish new Community taxes and move beyond calculations based on net national contributions.

The schedule for the four years to the end of 2006 – WTO negotiations, institutional reform, enlargement, European Parliament elections, renewal of the Commission, and the multiannual financial package – seems fraught with difficulties in several respects since each event has its own rationale yet they are all interdependent.

[4] "*Un financement plus démocratique du budget européen : un défi pour la Convention*", S. Goulard and M. Nava , 2002

The game could well be played out simultaneously on three tables – institutional, budgetary and sectoral. Unlike what happened in 1999, the iterative and incremental arguments used by the various sectors to secure their budget will no longer apply, owing to the "explosion" of the institutional framework. Thus, the European Union is on the threshold of a budgetary big bang.

## REFORM OF EU POLICIES IN THE PERSPECTIVE OF ENLARGEMENT AND THEIR FINANCIAL IMPLICATIONS

Lluís NAVARRO
(April 2002)

The budgetary implications of enlargement, and particularly of the Common Agricultural Policy (CAP) and structural funds, are currently at the heart of the European debate. According to the enlargement negotiations 'road map' approved by the European Council in December 2000 in Nice, the Union should agree on common negotiating positions for the most sensitive chapters (agriculture, regional policy and budgetary provisions) before the end of the Spanish presidency in June.

These chapters are those with major financial implications: agricultural and structural expenditure together account for about 80% of the EU budget. The developments concerning the Commission's recently presented "Progress report on economic and social cohesion" and the reactions following it, as well as the mid-term review of the CAP due this year and next, are fully interlinked with the debate on financial matters.

Regrouping these issues within the perspective of enlargement and its financial implications, on the 30th January the Commission presented a communication on a common financial framework covering the period 2004-2006[5]. This framework provides the basis for the Commission proposals for Draft Common Positions on the remaining open chapters.

[5] "Information note: Common financial framework 2004-2006 for accession negotiations". Communication from the Commission, Brussels, 30.1.2002.

According to the Commission's plan, the accession of up to ten countries in 2004 can be financed within the ceilings set in the Financial Perspectives approved in Berlin in March 1999. Even if these were based on the accession of only six applicant countries, with accession at a later date than initially foreseen (2004 instead of 2002) and a phasing-in of new transfers starting from relatively low amounts, the Commission leaves total commitment appropriations at €40.2 billion for the three years 2004-2006, that is €2 billion less than it was initially foreseen in the multi-annual framework for that same period.

The Commission communication has been received with reserve from both negotiating parties. Candidate countries have expressed disappointment and have vehemently claimed discriminatory treatment, particularly concerning the starting level of income support in the CAP. They consider it too low and inconsistent with the fact that they will be expected to fully abide with all of the other rules of the CAP from the date of accession. On the opposite side, some current Member States have criticized the Commission proposals on the grounds that direct aid was not foreseen in the Berlin multi-annual framework and that its inclusion in the negotiating package somehow prejudges forth-coming CAP reforms.

In the middle of the pre-negotiation stage, the fact that both applicant countries and current Member States express heavy discontentment and present radically disparate positions is not surprising. However, it shows how sensitive the issues are and how little leeway the Commission had in preparing its proposals.

The Commission communication also intended to clearly separate the content of the short term package to be offered to applicant countries, from the questions concerning the review of the CAP and the debate on the future of cohesion policy. If this approach is largely justified

by the imperative priority to move forward within the agreed schedule and not placing further obstacles to the successful development of negotiations, none of the negotiating parties will neglect the heavy linkages of different decisions. Furthermore, the reactions to the Commission proposals have been clearly reflecting long-term financial concerns, which go well beyond the current multi-annual framework.

In fact, the 2004-2006 period is only the initial phase in which new Member States will start benefiting from financial transfers from the Union's budget. This is illustrated by the fact that, according to the Commission's plan, over these period actual payments are forecast to be only a fraction of commitments, €28 billion. Besides, the debate on the new inter-institutional agreement, for the period 2007-2013, may start much earlier than initially expected. The Commission has indicated that it may put forward proposals concerning the next Financial Perspectives as early as the end of next year, in order to avoid delays in the implementation of the structural programmes as has been the case for the present multi-annual framework.

In a mid to long-term perspective, the reforms defining the future content of common policies will be the main determinant of financial flows. This especially concerns cohesion policy and the CAP, but also the objectives and commitments that the Union will adopt in internal and external policies.

## I. Cohesion Policy

### The framework proposed by the Commission

Under the Commission proposal, regional aid payments would be phased-in over the first three years after accession. Structural operations in 2006 would amount to some €10 billion, that is two thirds of the total commitments appropriations for enlargement. In per capita terms, new Member States would be receiving €137, which is slightly more than foreseen in the Agenda 2000, but still substantially lower than the average €231 per head transferred to Spain, Greece and Portugal[6].

### Absorption capacity

One of the major issues for the integration of candidate countries into regional and cohesion policy is absorption capacity. This not only concerns the ability to appropriately use and manage European structural funds, but also the capacity to co-finance large subsidies. The Berlin agreement settled a ceiling of structural aid of 4% of national GDP, while the €10 billion amounts to less than 2.5% of GDP in the 10 applicant countries considered. In any case, even with transfers of 4% of national GDP, new Member States would still receive lower absolute per capita payments than those currently received by present beneficiaries.

With the purpose of enhancing the absorption capacity, the Commission proposes to introduce the Cohesion Fund in the new Member States at a ratio Cohesion Fund/Structural Fund of 1/3, which is higher than the current ratio in cohesion countries (18%). The aim in doing so is that the Cohesion Fund demands lower co-financing while additionality does not apply. Besides, the implementing procedures of the Cohesion Fund, focused on large-scale transport infrastructure or environmental projects, are also simpler than those of the Structural Funds,

[6] Data from Commission communication.

which are based on multi-annual programming. Furthermore, the Commission explicitly envisages the possibility of exceeding the 4% ceiling after 2006, for certain major projects of "Community interest" financed by the Cohesion Fund.

Whether these measures, and the Commission's intended focus on administrative capacity and public administration, will actually allow new Member States to effectively absorb as much as 4% GDP, and eventually more, will only be seen gradually after accession through experience. In any case, even if the result of the negotiations was close to the amounts proposed by the Commission for the first years, it is unlikely that structural aid to new Member States would be kept below the 4% ceiling for long. Unless absorption problems are clear and persistent, new Member States will probably press for higher transfers to their regions, most of which will be among the least developed in the Union. Many observers and Member States accept that a large share of the structural budget will have to go to the CEEC's.

Available estimates of the annual amounts of cohesion policy spending for new Member States are indeed most often higher than the €10 billion suggested by the Commission for the year 2006. In addition two more countries, Bulgaria and Romania, are also expected to be members of the Union from the beginning of the next multi-annual period. A.Faina and J.L.Rodríguez estimate that in 2007, if 12 new Member States were granted the same level of aid per capita as the average for Objective 1 regions for the period 2000-2006 or for the year 2006, the commitments for structural action in new Member States would double to around €20 billion[7]. According to calculations by a Dutch Interdepartmental Policy Study (IBO)[8],

[7] A. Faina and J.L.Rodríguez, "Development policy for regions lagging behind and the enlargement process to central and eastern European countries: the funding envelope from the financial framework 2000-2006".
[8] "The European Union Structural Policy in the Context of the Enlargement of the EU" Interdepartmental Policy Study by the Dutch Government, summer 2001.

with application of the 4% ceiling, 12 new Member States would receive some €145 billion in the 2007-2013 period; this makes an annual average of nearly €21 billion[9]. DIW simulations predict, in different scenarios, an increase in the expenditure in the 12 accession countries from below €12 billion in 2007 (under the assumption that new Member States would not yet receive 100% of payments) to some €22 billion in 2013[10].

***Eligibility criteria and phasing-out mechanisms***

The eligibility criteria for structural aid and the design and generosity of the corresponding phasing-out mechanisms are the two other hotly debated issues, determining the shape and ambitions of future EU cohesion policy as much as its financial needs.

Maintaining the current threshold for eligibility after enlargement, a regional GDP per capita in PPS below 75% of the EU average, would remove a large number of present beneficiary regions from Objective 1 status. According to the latest figures published by the Commission, based on the average for an EU 25[11], regions currently eligible for Objective 1 that after enlargement would no longer have a GDP per capita below the 75% threshold contain a population of 37 million people. One third of these would have grown out of eligibility anyway, but the remaining two thirds do so due to the statistical effect of enlargement on the community average, which is estimated to fall by about 13%.

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[9] The €145 billion is an average of the amounts estimated with growth rates in the new Member States of 2% and 4%.

[10] "EU eastern enlargement can be financed – increased need for reforms", C.Weise, 2001. English summary of Berlin DIW study prepared in cooperation with the Institute for Agricultural Economics at Göttingen and the Institute for European Policy, Berlin.

[11] As the Commission explains, even if the EU may contain up to 27 members in 2007, the list of eligible regions for Cohesion Policy will be determined on the basis of average data for the years before the negotiations, that means probably the average of a Union of 25 members. This is "good" for EU-15 regions, for if Bulgaria and Romania were included in the calculations some 8 additional regions would be below the 75% EU average per head, Spanish regions being particularly affected.

The Commission outlined four options in the Second Cohesion Report for future eligibility of less developed regions and transitional support :

- Maintaining the present criteria of 75% of EU GDP, irrespective of the number of EU Member States. Regions losing eligibility might eventually get support under other objectives.
- The same 75% criteria, but combined with phasing-out support for all regions losing Objective 1 status. The level of phasing out would be higher for those regions that wouldn't have lost eligibility if it were not for enlargement.
- Raising the 75% threshold by enough to reduce or even eliminate the "statistical effect" due to the fall in the average EU GDP per head.
- Fixing two different thresholds of eligibility for the EU-15 countries and new Member States.

As the Commission explains in its outline of the debate since the publication of the Second Cohesion Report, reactions and suggestions have been numerous and of all colours. It is not yet clear which option might be favoured. Spain, supported by Greece, Portugal and to some extent Italy, has been strongly opposing a reduction in the funds that regions from the EU-15 are currently receiving. In Nice, by blocking the extension of qualified majority voting to structural policy, they secured a last word on the future financial perspectives. Therefore, whatever option is finally chosen, a generous treatment of current beneficiaries is to be expected. Raising the eligibility ceiling, the option favoured at least by Portugal and Italy, would however imply a once-and-for-all heavy commitment. Even those Member States that would benefit from such a measure in the short run would eventually become net payers of very long term higher transfers to CEEC's. As for the fixing of two thresholds, the candidate countries are very likely to oppose "double standards". They demand the same treatment as

incumbents and would not appreciate a reproduction of the current framework which splits the funds between those attributable to old and new Member States. By the time the next financial framework is negotiated, up to ten applicant countries will be full members. Since any agreement will have to be reached under the unanimity rule, they will be able to exercise their right to veto any deal that happens to discriminate against their interests.

Apart from the eligibility criteria, numerous other ways to reform have been suggested in the context of the debate on cohesion policy, most of which remain controversial. Comprehensive works from DIW and Dutch governmental services, favour a higher concentration of resources on the less developed countries and "re-nationalisation" of the policy. According to this, in line with the principle of subsidiarity, regional policy would be transferred to the national authorities of the countries with lower average GDP per capita. National authorities of better-off countries would take over the responsibility for the catching-up of their less developed regions. Other ideas put forward by these studies include the elimination or substantial reduction of the aid for Objectives 2 and 3, which wouldn't have proved to have an effective economic impact on regional development. Under these assumptions, and a strict application of the 4% absorption ceiling, cohesion policy might be financed with much less than the 0.45% of the community GDP foreseen by the current multi-annual framework for structural policy in 2006, which is also seen by the Commission as a starting point for future actions. Alongside the Commission's ideas, regional organisations and political leaders consider that in an enlarged Union there will be a strengthened need for cohesion policy for which more financing will be needed. The article by A.Faina and J.L.Rodríguez, or the proposals of the CRPM as a reaction to the second Cohesion report[12] (which estimates the

[12] "Positions de la CRPM à l'occasion du deuxième rapport sur la cohésion économique et sociale: 10 questions pour le débat.", CRPM, 21 mai 2001.

funding needed for Cohesion Policy at between 0.55% and 0.65% of the Union's GDP) take this line.

Should cohesion policy be based on a regional or national approach ? Should new eligibility criteria be primarily based on GDP per capita or should they take into account structural handicaps? Should the present structure of the Community interventions ESF-EAGGF (Guidance)-FEDER on the one hand, and Community initiatives on the other, remain untouched or should it be reformed somehow?

## II. Common Agricultural Policy

### *The framework proposed by the Commission*

Agriculture is probably the most delicate issue of enlargement negotiations. The agricultural sector is quite large in most of the accession countries, where rural employment and agricultural production are relatively higher than in the EU. The potential financial impact of enlargement on agriculture payments is sizable.

The Commission's plan for integrating new Member States into the CAP follows three main lines:

- full access to market-support measures (on the basis of recent years reference periods, between 1995-99);
- increased transfers for rural development policy;
- gradual introduction of direct payments in the new Member States starting with 25 percent in the first year of membership, increasing to 30 and 35 percent the following

two years. Following this first period, the percentage of income support would be increased gradually to reach 100% in 2013.

Total commitment appropriations proposed for agricultural spending in new Member States amount to €2 billion for 2004, €3.6 billion for 2005 and €3.9 billion for 2006. More than half of these amounts would be allocated to rural development actions (so called "second pillar").

The most contentious aspect of the Commission proposals is the introduction and the level of direct payments. In their position papers, candidate countries demanded full integration into income support after accession, something which had not been included in the financial perspectives approved in Berlin. The Commission finally endorsed a gradual introduction of income support. It proposes a relatively low starting level, explaining that if current levels of direct payments were transferred to the applicant countries upon accession, this would create economic distortions on relative incomes –artificially raising the returns of agricultural activity- and provide a major disincentive to undertake badly needed structural reforms.

The Commission proposal for direct payments has also run into opposition from those Member States that would like to eliminate them anyway. They argue that direct payments were introduced as compensation for reductions in guaranteed prices, a development that did not concern the farmers of the candidate countries. Applicant countries respond that direct payments have since become a central element of the CAP and in the medium term significantly support farmers' investment capacity and thus the level of competitiveness. The longer ago in time the price reductions took place, the harder it becomes to justify the exclusively "compensatory" nature of payments.

In line with the growing emphasis placed on the rural development aspects of agriculture, the Commission also suggests allocating an important share of agricultural aid to the "second pillar". The Agriculture Commissioner, F. Fischler, has often stressed the importance of financial support to rural development policy in new Member States, where rural areas have been neglected for the past few decades, to the detriment of industry and urban development. Since in some candidate countries up to 40% of the population lives in a rural environment, financial support may also be necessary to soften painful restructuring and eventual social tension.

The full integration of applicant countries into market support has not been questioned by the Member States either. The only delicate matter concerning market organisations has been the determination of quotas: the Commission has finally based these on production over recent years, in opposition to the demands of the applicant countries, who would have liked these to be based on higher historical levels of production.

**Financial implications**

It is not coincidence that direct payments are the issue in which positions are the most divergent. Direct payments only represent a small fraction of the financial envelope put forward by the Commission. However, if new Member States were fully entitled to income support this would give rise to much larger transfers. This is one of the main conclusions from the Dutch Interdepartmental Study on the financial impact of enlargement on the CAP[13], which estimates the cost of granting direct income support to candidate countries at €6.5 billion in 2007. That would be half of the total CAP expenditure (€13 billion).

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[13] "The Financing of the Common Agricultural Policy After European Union Enlargement", Interdepartmental Policy Study conducted by the Dutch Government.

Indeed, most available calculations converge on the fact that an unreformed CAP with direct income support for new Member States would put considerable strain on the budget. Estimates of CAP payments to new Member States range from €8 billion (Institute of Agricultural Development in Central and Eastern Europe, IAMO[14]) and €8-9 billion per year (Agricultural Economics Research Institute in Finland[15]), to about €14 billion (Dresdner Bank[16]) and, almost €16 billion in 2007 and €14 billion in 2013 (Institute of Agricultural Economics, Göttingen[17]).

All of these calculations should be handled carefully, for they need to rely on assumptions as to the level of rural development aid, which is going to be an eminently political decision, and uncertain estimations of future world market prices. They provide, however, a reliable range for the financial impact of enlargement on CAP expenditure.

In any case, financial pressures amplified by enlargement are not the only reason to reform the CAP. The circumstances pressing for substantial reform are manifold. These include growing domestic dissatisfaction linked to concerns of food safety, animal welfare or environmental problems; WTO pressure to dismantle agriculture protectionism; discontentment with expensive subsidies ; and the need to give more consideration to consumer interests.

[14] Calculations cited in Deutsche Bank Research paper: Hans-Joachim Frank, "Eastward enlargement of the EU endangered by agriculture?", May 2001.
[15] Amount calculated on the basis of enlargement to ten countries. Cited in : Finnish Ministry of Agriculture and Forestry, "Strategy for Finnish Agriculture; Final report of the steering group", Helsinki, 2001.
[16] Dresdner Bank, "The Challenge of EU Enlargement", Trends Special, July 2001
[17] C.Weise's article, Op. cit.

***Which way for the mid-term reforms?***

The mid-term review of the CAP is due over this and next year, and although some suggestions have already been outlined here, no real negotiations have started yet.

There is however growing consensus of the need to strengthen the "second pillar". Were this eventual reinforcement of the rural development aspects of the policy to remain budget-neutral, difficult decisions would have to be made, either by cutting compensatory payments or by reducing price support. The amount of financial backing finally given to rural development programmes (investment aid, village renewal, promotion of tourism, improvement of rural infrastructure, living conditions, etc.) or "accompanying measures" (early retirement schemes, afforestation programmes and environmental schemes) will be the result of inherently political decisions. Leeway will obviously also have to be found so as to accommodate the entry of the applicant countries.

Various alternatives for reducing the EU budget burden for income support, and thus freeing resources for rural development or the extension of the policy to new Member States, were already on the table at the time of negotiating the last reforms in the framework of Agenda 2000. Some would still easily get the backing of several Member States. Those most often cited are :

- Degressivity: Gradually skimming off direct payments, i.e. a fixed percentage reduction per year.
- Modulation: Limiting the amount of aid per farm according to certain criteria. This might for instance allow a fairer treatment of smaller farms, predominant in CEEC's.
- Cross-compliance: Introducing some form of conditionality, which should allow at the same time a reduction of direct payments and the fostering of "green" practices.

- Co-financing of direct payments: Which might improve the distributional effect of the CAP but has been opposed on the grounds of the “common” nature of the policy.

It would also be possible to smooth eventual direct payment reductions to the desired extent. “Compensatory” payments might for instance be gradually replaced by payments for particular actions or services, such as maintaining the rural landscape, environment friendly practices, etc. Such instruments would also allow for a gradual integration of new Member States into a renewed income support system.

The existing alternatives for reform –used either alone or in combination- are numerous. At the moment all options, including no reform at all, remain open. Interesting questions at this stage, on which some of the available work has already shed some light, may concern the pace at which income support should be phased-out (or “degressed”, “modulated”, “co-financed”, etc.) so as to have a budget-neutral phasing-in of new Member States; which of the available possibilities to deal with direct payments, or combination of these, generates the best incentives; or the possible evolution of the CEEC’s production under different scenarios.

The forthcoming reform should also tackle issues concerning market and price support, as WTO negotiations make these less and less sustainable in the long-run. As with an eventual reduction of direct payments, alternative measures should be found to preserve farm incomes in cases where farmers do not manage to match lower prices with higher productivity.

Multiple questions also arise concerning the more qualitative aspects of the envisaged reforms and rural development programmes: How should the measures to support farm modernisation and investment be designed? What are the most appropriate instruments? Would it be better to

include the rural development programmes in the general framework of the regional policy (under ERDF rules) or to keep it separate (under EAGGF rules)? In this sense the Commission suggests in its initial package to increase the co-financing rate for new Member States, to manage the policy according to SAPARD rules, and to add another series of specific measures so as to tackle the particular needs of new Member States[18].

The particular characteristics of the agricultural sector in CEEC's may indeed call for "tailor-made" instruments. On the one hand, the large farms inherited from the communist period would need high investments to increase their efficient and improve the quality of the food produced. On the other, smaller eastern family farms, while also less efficient than the more industrialised farming of the Member States, often provide higher levels of food safety and animal welfare. Finding a way to ensure that the CAP favours organic farming over industrial farming (which is more prone to cause health problems) is another open challenge.

Finally, the integration of candidate countries into the CAP should not only be regarded in terms of "costs". Some Member States will also get direct benefits that, even if less visible than the costs (they are not going to show up in the European Union's balance sheet) are likely to be large. CEEC's farms have, for instance, a growing demand for modern machinery. This is going to be a profitable market for mechanical-engineering companies in the current Member States, who will thus indirectly benefit from EU transfers. Most applicant countries are also high importers of transformed agricultural products from the EU, and potential exporters of skilled agricultural workers[19].

[18] These include for instance measures to make semi-subsistence farms commercially viable or technical assistance.
[19] Hans-Joachim Frank, Op. cit.

What kind of reforms may at the same time satisfy the needs of both the present and the future Member States agricultural sectors?

### *III. Other budget headings*

Recently, expenditure pressures have been developing in policy areas other than agriculture and cohesion. Enlargement is going to create new financial needs in numerous fields. This will particularly be the case for external and internal policies, and administrative expenditure, areas that are already in a tight situation.

#### *Internal policies*

In an enlarged Union additional funding will have to be allocated to the integration of 10 or 12 additional Member States into Community programmes. According to the Commission's proposed framework, approximately an extra €1.1 billion per year would be available for internal policies. This sum is obtained from the amounts foreseen in the Berlin framework for the first three years after enlargement, adapted for four additional Member States.

Extra expenditure for nuclear safety and institution building for the initial period after accession is also foreseen by the Commission. It proposes €305 million over the years 2004-2006 for nuclear plants decommissioning (Bohunice/Slovakia and Ignalina/Lithuania) and €380 million for setting up administrative structures and the strengthening of existing institutions. These amounts look small compared to those foreseen for regional or agricultural expenditure. However, what the real needs will be in these fields is particularly uncertain.

Concerning nuclear safety, the amount of funds or length of support that will be necessary to compensate for a lower cheap energy supply resulting from plant closures cannot yet be clearly established. A similar case can be made for institutional building. It is hard to estimate when, and after what levels of technical and financial assistance, new Member States will have achieved a level of administrative capacity allowing them to efficiently manage EU transfers. The fact that funds have occasionally been squandered or misused in current beneficiaries reinforces the concerns about proper preparation of the candidate countries institutions.

Expenditure in other policy areas not foreseen in the Commission framework, for instance internal security, might also experience significant increases in a Union of 25 to 27 Member States.

***External Policy***

No extra funding is foreseen in the current financial perspectives for extra expenditure on external policy as a result of enlargement. Correspondingly, the Commission does not propose any adjustment in heading 4 of the budget. Nevertheless, it is hard to see how enlargement will not bring about pressure on external policy expenditure, a budget heading which is itself already under strain by the numerous commitments of the Union in the Balkans, Afghanistan or the Mediterranean.

A Union of 25 or 27 members will have to face additional tasks in the field of external actions as it will have to integrate the external political obligations of its new members. Moreover, the EU will have new external borders with Belarus, Ukraine, Moldova and the Balkans, and

much longer ones with Russia that is currently the case. The region of Kaliningrad will be a Russian enclave surrounded by EU territory.

The EU should also help new members build (and pay for) efficient and incorruptible border controls. The idea of some sort of "European Borders Police" has been sometimes suggested. In any case, it would be neither fair nor sensible that border policing and controls are left to the responsibility, and financing, of new Member States alone. Hard as it may be to calculate the potential costs of such actions, their impact should be considered.

***Others***

The financial framework for enlargement proposed by the Commission includes between €500 and €600 million per year for extra administrative expenditure, i.e. additional staff and buildings for all institutions. The Commission also suggests that new Member States pay their full contributions from the first year after accession, and proposes the setting up of transitional budgetary compensations. Without these, new Member States might become net contributors to the EU budget as they will receive the corresponding payments only gradually while their contributions will be fully debited from accession. The amount of these transitional arrangements would only be determined during the negotiation process. The Commission estimates however that margins available under the ceiling of the financial perspectives should suffice to cover these budgetary compensations.

Finally, in the framework of the Agenda 2000 negotiations, the German government put forward proposals to shift the expenditure balance from "old" policies (the CAP and structural funds) to the "new" policies (environment, R&D). Such ideas did not make it through but

might well be up-dated in the perspective of the 2007-2013 framework. Leeway should also be found in that case so as to allow for intensified efforts in such "new" common policies.

**IV. Final remarks**

The financial package recently put forward by the Commission opens the door to the last and most difficult phase of enlargement negotiations. Given the electoral climate of several EU countries this year, these proposals may be as close to the maximum politically acceptable by the EU-15.

The Commission's framework covers the first three years after enlargement. However, even if enlargement negotiations need only cover those financial issues related to the current multi-annual framework, long-term concerns will implicitly or explicitly loom on the process and weigh on negotiating positions.

Long-term financial implications should be given due consideration. To mention but one recent report which illustrates what the global "cost of enlargement" would be if no reforms were implemented, the last report of the European Parliament Committee on Budgets, taking the Commission proposed framework as a point of departure, mentions the figure of €39 billion as an estimation of the budgetary costs of enlargement in 2013[20]. This may be taken as an extreme case but gives an idea of what the EU budget might look like under a "status quo" scenario. Nevertheless, most comprehensive works on the financial implications of

[20] W.Quaisser, "The costs of enlargement. New Commission proposals and their implications for the next financial period", Kurzanalysen des Osteuropa-Instituts, München, 2002.

enlargement are less alarming and conclude that enlargement can be financed within the present own resources ceiling (1.27% of the EU GDP), provided reforms are implemented.

There are some strong arguments not to delay the difficult bargaining and political choices: were reforms to be postponed after enlargement, particularly the CAP mid-term review, the scope for ambitious choices would be scrapped. With ten or twelve additional Member States having full voting (and blocking) rights, changes to be approved by the unanimity rule, specially those concerning reductions in recently granted or still being phased-in subsidies, would still be much harder to pass than today. Moreover, a de-construction of the budget would lead to serious questioning of some of the benefits obtained by present Member States, such as the British rebate or Cohesion transfers of Spain, Portugal and Greece. It would be interesting in this context to reflect on the nature and extent of possible reforms as well as their financial implications.

## ANNEX 1

## List of participants

Experts:

BACHTLER John, European Policy Research Centre, Glasgow, UK

BACHE Jean-Pierre, Budget DG, European Commission

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BARTHELEMY Pierre-Antoine, Regional Policy DG, European Commission

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HANNULA Matti, Ministry of Agriculture and Forestry, FIN

HOLZHAUSEN Arne, Dresdner Bank, D

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NAVARRO Lluis, Research and Study Group Notre Europe, Paris, F

GUDER Ute, Research and Study Group Notre Europe, Paris, F

## ANNEX 2

## Program

10.00 Welcome

10.15 Structural measures (Chair: Hywel C. Jones – EPC)

Future eligibility criteria for the Structural Funds and the Cohesion Fund. How should the take-up rate ceiling be interpreted?
*Presentation 1: Christian Weise (DIW Berlin, D)*
*Presentation 2: Andrés Faina (Regional Government of Galicia, E)*

11.45 The common agricultural policy (Chair: Marjorie Jouen – Notre Europe)

How should the CAP contribute to structural and rural development policies? What direction should the coming reform take? What are the implications for the future Community budget?
*Presentation 3: Mark Esseboom (Finance Ministry, NL)*

12.45 Lunch

14.00 Other Community policies (Chair: Marjorie Jouen – Notre Europe)

What new financial constraints will enlargement bring in other policy areas such as technical assistance for the new Member States, border controls, nuclear safety, the environment, etc.?
*Presentation 4: Iain Begg (South Bank University, UK)*

**PREVIOUSLY PUBLISHED "SEMINARS":**
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http://www.notre-europe.asso.fr/Seminar.htm)

- *Paris (11 th October, 2002):* ***Europe and the crisis of the democracy: Elections in Europe 1999-2002***
  *Available in English.*

- *Brussels (13 th November, 2002):* ***Crossborder and transnational cooperation, the new Europe is inventing itself in its margins***
  *Available in French, English and Italian.*

- *Paris (31-1st January, 2002):* ***The future of the structural funds and the cohesion policy***
  *Available in French and German.*

- *Brussels (23rd May, 2001):* ***How to enhance Economic and Social Cohesion in Europe after 2006?***
  *Available in French and english.*

- *Berlin (11-12th April, 2001):* ***Towards a new social contract in Europe: French and German social models and economic transformations.***
  *Available in French and German.*

- *Paris (4 th September, 2000):* ***European Union: The reform of the Council of Ministers.***
  *Available in French, English and German.*

- *Brussels (28 th November, 2000):* ***Reuniting Europe.***
  *Available in French and English.*

- *Berlin (3rd& 4 th February, 1999):* ***The Franco-German axis: the test of Agenda 2000.***
  *Available in French.*

- *Madrid (27 th & 28 th November, 1998):* ***Fifteen countries in a boat: Economic and social cohesion, the cornerstone of European integration.***
  *Available in French, English, Spanish and German.*

- *Athens (13 th & 14tth November, 1998):* ***Europe in search of (an) identity(ies).***
  *Available in French, English, German and Greek.*

- *Brussels (10 th June, 1998):* ***National Employment Pacts.***
  *Available in French, English, German and Italian.*

- *Luxembourg (11th September, 1997):* ***Industrial Relations in the European Union.***
  *Available in French and English.*

- *Brussels (29 th May, 1997):* ***Economic convergence and employment in Europe. What does EMU promise?***
  *Available in French.*