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THE EU BUDGET & ENLARGEMENT: TEN YEARS ON[1]

"With enlargement you begin by discussing the future of Europe and end up arguing over a 1000 tonnes of cod."
DAVID WILLIAMSON, former Secretary General of the European Commission

INTRODUCTION

In December 1991 the signing by the EC of Europe Agreements with Poland, Hungary and Czechoslovakia marked the beginning of the accession process for the Central and Eastern Europe countries (CEECs). Now more than 10 years on, it is possible to take a considered view of the enlargement process, in this case in relation to the EU budget. As the perceptive observation by David Williamson indicates, although the enlargement process starts with the grandiose visions, in the end it is the mundane detail that proves so difficult to resolve. The devil in the detail is no more apparent than in the budget, which is at the centre of the contentious issues of structural and agricultural policy reform, in addition to being a crucial issue in its own right. This was apparent from the very beginning of the process and it is to these same issues that negotiators and academics have returned again and again. The intractable nature of the problems and the limited progress of reform, means that 10 years on, any reconsideration of the budget and enlargement, induces a distinct sense of *déjà vu*.

There is one way in which this enlargement is, however, very different from previous enlargements, it is not to be accompanied by an expansion of EU budgetary resources[1]. The first enlargement was preceded by the move to 'own resources', which effectively provided for additional resources. The budget was expanded after the Mediterranean enlargements of the 1980s. The 1995 EFTAn enlargement only added relatively wealthy countries to the EU and so effectively

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[1] Elhangzott a BGF Kereskedelmi, Vendéglátóipari és Idegenforgalmi Főiskolai Kar EU-tanulmányok szakirány alapításának 10. évfordulójára rendezett szekcióülésen, a Magyar Tudomány Napja alkalmából, 2002. november 7-8. között „HÍD KELET ÉS NYUGAT KÖZÖTT" címmel tartott konferencián.
[1] Which will potentially grow in line with EU GNP.

added to budgetary resources. The expansion of budgetary resources with enlargement permitted side-payments for existing and new member states. Thus the Mediterranean enlargement was accompanied by Integrated Mediterranean Programmes to ease the impact of the enlargement on the existing Member States Mediterranean regions. The structural fund reforms of 1988 increased the extent and concentration of structural spending in the new Member States Spain, Portugal and Greece.

The coming enlargement places particularly large potential demands upon the budget because of three characteristics of the CEECs: low income levels, the large total size of their populations and the importance of agriculture in these countries. So the EU has been trying to square the circle, by undertaking an unprecedented enlargement without an expansion of budgetary resources. This is at the heart of the budgetary and policy problems of enlargement.

This paper considers the way in which the EU has responded to the policy reform and budgetary challenges of enlargement. It covers four areas in chronological order. First, the nature of the problems posed for the EU's policies and budget as identified in the early stages of the enlargement process. Second, the ways in which these problems and the responses to them have changed compared with ten years ago. Third, the proposals made by the European Commission to deal with the problems and the response to them in the EU 15 and the accession countries. Fourth, the agreements reached on policy reform and the budget at Berlin and Brussels, are analysed in relation to the future financing of the EU and the future of the EU more generally. Finally, the conclusions assess the extent to which this enlargement is different in the areas of budgetary and policy reform.

THE EU BUDGET AND ENLARGEMENT FROM THE PERSPECTIVE OF 1992

The CEE countries were very much poorer than the EU 15, in relative terms much poorer than any other countries that had previously joined the EU. This would mean that despite their relatively large total population their GDP is relatively small (*Table 1*). Since contributions to the EU budget are roughly related to GDP.[1] This would lead to the CEE countries adding only a small amount to EU own resource. Although with convergence of GDP levels their share of budgetary contributions should rise over time.

The CEECs would, however, add significantly to EU expenditure because of their demands on the structural policy and agricultural budgets. Since GDP per capita in all the CEE countries is below 75% of the average of the enlarged EU, most of their regions would be classified as Objective 1, eligible for EU aid at the highest rate. One influential early calculation[2] estimated that if the average

[1] Ardy, 2002, p. 95.
[2] Courchene, 1993.

expenditure per head in Portugal 400 ECU were applied to the Visegrad 4[1], then this would cost ECU 26 billion in 1999 nearly exhausting the projected total structural spending of ECU 30 billion. Expenditure at these levels would have been hard to achieve because of the problems of co-funding, absorption and additionality.[2] Since as a general rule[3] 50% of structural policy project expenditure has to financed by the Member State, the accession states would not find possible or desirable to raise this level of funding. It is also difficult to generate sufficient projects which meet the stringent criteria (the problem of absorption). A further complication is that these projects are supposed to be new and would not be undertaken in the absence of the structural funding (additionality).

Table 1
The impact of successive enlargements of the EU[4]

	Area	Population	Total GDP	GDP per capita	Average per capita GDP EC 6 =100
EC9/EC6 (1973)	31	28	25	–2	98
EC10/EC9 (1981)	9	3	2	–1	97
EC12/EC10 (1986)	34	16	8	–7	90
EC12* (1990)		5	3	–2	88
EU15/EU12* (1995)	17	6	8	+1	87
EU25/EU15	23	20	5	–12	77
EU27/EU15	34	28	5	–18	71

Agriculture is far more important in the CEECs than the EU, in the CEE 10 in 2000 there were 9 million farmers accounting 21.5% of employment,[5] compared with just under 7 million accounting for 4.3% of employment in the EU 15.[6] Agriculture's share of GDP is much lower varying between 2.5% in Lithuania and 7.5% in Slovakia, to 15.8% in Bulgaria, the EU 15 average is mere 1.7%. Even after years of reform and the expansion of other policy areas the Common Agricultural Policy still accounts for around half of EU total expenditure. Extending the current policy to the CEECs would substantially increase CAP expenditure. Not surprisingly given the uncertainties involved, early estimates of the cost of extending the CAP showed considerable variability. One study had a

[1] Czech Republic, Hungary, Poland and the Slovak Republic.
[2] Ardy, 1996; Grabbe and Hughes, 1997.
[3] With the exception of the Cohesion Fund where the rate of funding is 80-85%.
[4] Source: European Commission 2002h, 2002i.
[5] Excluding Bulgaria and in particular Romania's nearly 5 million farmers, the 10 accession countries have 4 million farmers accounting for 13.5% of employment.
[6] European Commission, 2002j.

range of 4-31 billion ECU[1] and other estimates ranged as high as ECU 37 billion for the Visegrad 4.[2] These early estimates implied agricultural expenditure in the new member states at similar levels to the EU 15. Expenditure at these levels looked way beyond the willingness of the EU 15 to finance them. So enlargement did not look possible without a fundamental reform of the CAP.

Under the Uruguay Round Agreement (URA) the previously unregulated trade in agricultural was placed under new limitations. Levels of protection, the volume of imports, total financial support of agriculture, export subsidies and the volume of subsidised exports, are now subject to controls. Agriculture in the CEECs has considerable potential to expand output in the long run. This could mean that an expanded EU could breach limits on subsidised exports particularly for grain, beef and sugar. Thus CAP reform would be required to accommodate the CEE, although this could perhaps be postponed by long transitional arrangements. These might be problematic involving for example the need to retain border controls. So reform of the Common Agricultural Policy was seen as an essential prerequisite for enlargement.

These additional pressures would be added to a budget, which despite years of reform still failed to distribute the direct costs and benefits of membership fairly among Member States. With contributions roughly related to GDP, and the reformed structural funds concentrating expenditure on the poorer member states, the major cause of the problem remains the CAP. This unfairness in the budget acts as a break on policy development and reform, it makes the net budgetary contributors unwilling to expand the budget, while net beneficiaries are unwilling to concede benefits,

EU POLICY REFORM AND ENLARGEMENT 1992

Enlargement was the major factor driving Structural Policy reform although there were other pressures, concerns about the effectiveness, and monitoring of the policy. It was thought that too much of the EU was designated as areas in need of particular assistance. This spreading of expenditure was thought to dilute its effectiveness. The multiplicity of objectives and programmes complicated this problem and in addition caused problems in the administration of policy. There was also concern about the incidence of fraud in relation to structural policy, which required tighter administration.

The inclusion of the CEE5 would also exacerbate the problem of EU structural aid being too thinly spread. With no change in designations in the EU15 57.2% of the EU20 population would be living in areas receiving regional specific aid and 36.1% of the population would be living in Objective 1 regions.[3] With the average GDP per capita declining with the entry of the new states, the obvious solution to these difficulties would have been to reduce the areas eligible for additional aid

[1] Brenton and Gros, 1993.
[2] Anderson and Tyers.
[3] Ardy, 1999; p. 110.

accordingly. Existing Member States and their regions not surprisingly were unwilling to concede reductions in their current levels of structural expenditure.

The current CAP is also not suitable for the CEE countries, which have limited capital and large demands for investment, from infrastructure and new manufacturing and service ventures. High prices and subsidies would encourage additional investment in agriculture not warranted by commercial considerations. Higher prices would also increase domestic inflation to the cost of the population at large. Whilst higher incomes in rural areas may have the desirable consequence of slowing the rate of decline of the rural population, the way this would be achieve by encouraging farmers to stay in farming would delay necessary structural reform.

THE EU BUDGET AND ENLARGEMENT FROM THE PERSPECTIVE OF 2002

Most of this analysis remains valid from the current perspective, with inevitably some changes and new issues that have come to the fore. The CEE countries have grown more quickly than the EU 15 but their GDP per capita is still extremely low (*Table 1*). So the basic problem of these countries placing significant demands upon the structural fund and CAP expenditure, while making relatively small contributions to the EU budget remains.

The major area in which the analysis has changed is in relation to the cost of extending the Common Agricultural Policy to the CEECs. Early analyses were based on the rather poor agricultural statistics that were available. The appearance of better statistics[1] led to more consistent and lower analysis of the costs of extending the CAP. The 1992 reform also meant that the costs of enlargement were more contained. With most expenditure on direct subsidies expenditure was relatively fixed as compared with a situation where support is by high prices. Under the new CAP the expansion of agricultural output in the CEECs would be constrained by production quotas and set aside.

What has change fundamentally over the past ten years has been the hardening of attitudes towards contributions to the budget. Two developments have been crucial here the changing situation of Germany and EMU. German unification has put tremendous pressure on Federal Governments budget with a net transfer of 4% of GDP from West to East Germany.[2] This burden has been made worse by the related poor performance of the German economy with low growth and high unemployment[3]. Germany is, therefore, no longer willing or able to act as the paymaster for Europe, indeed it wants to reduce its net contribution to the budget.

The change in German attitudes has been mirrored by the Netherlands, Austria and Sweden calling for reductions in their net contribution to the EU budget. The major factor here appears to be the process of budgetary

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[1] Jackson and Swinnen, 1995.

[2] European Commission, 2002a; p. 2.

[3] Especially when hidden unemployment is taken into account, see: Sachverständigenrat, 2002, Table C, p.31.

consolidation required to meet the Maastricht convergence requirements, together with the budgetary restraint provided by the Stability and Growth Pact (SGP) for euro area members. Gross and net contributions to the budget (*Table 2*), do not seem very significant compared to general government budgets of 40-60% of GNP and federal/central government budgets of 18-28% of GDP.[1] These EU budgetary contributions loom much larger in relation to the SGP's upper limit for public sector deficits of 3% of GDP and the medium term requirement for the budget to be close to balance or in surplus. With monetary policy determined by the ECB on the basis of the conditions of the euro area as a whole, national fiscal policy remains the one flexible short-term element of macroeconomic policy in national governments' hands. Net contributions to the EU budget eat into this national margin for flexibility and so have become a much more salient political issue.[2]

Table 2
National net contributions to the EU Budget (average 1998-2000)[3]

	Share of net contributions %	Share of net benefits %	Net contribution % GNP	GDP per capita % of EU average
Luxembourg	0.4		–0.5	202.5
Denmark		0.3	0	146.0
Sweden	5.3		–0.5	121.4
Austria	3.5		–0.3	113.8
Germany	48.3		–0.5	112.5
Ireland		13.0	2.5	111.9
Netherlands	9.5		–0.5	111.1
Finland	0.3		–0.1	110.9
UK	20.0		–0.3	109.6
Belgium	2.2		–0.2	108.1
France	6.2	0.0	–0.1	104.9
Italy	4.2		–0.1	90.5
Spain		41.5	1.2	67.2
Greece		28.0	3.7	51.5
Portugal		17.2	2.6	50.6

[1] Ardy, 2002; p.86.
[2] The converse also applies, net recipients from the budget effectively have more room for fiscal manoeuvre.
[3] Source: European Commission, 2002b, European Commission, 2001.

These budgetary pressures have also perhaps contributed to increasing intransigence on policy reform. Countries are less willing to countenance policy reform that reduces their receipts from the budget. This has been seen recently in relation to Spain's concern over structural policy reform and France with regard to agriculture. Unwillingness to expand the budget, when combined with a desire to ensure no deterioration in the net budgetary position, make policy reform extremely difficult.

EU POLICY AND BUDGETARY REFORM PROPOSALS

The Commission proposals in response to the budgetary and policy reform problems of enlargement were contained in Agenda 2000.[1] The CAP was to be reformed by reducing agricultural prices for cereals and beef partially[2] compensating farmers by means of increased subsidies. There was to be reform of other product regimes particularly the dairy sector. These proposals aimed to achieve three objectives. First, ensure CAP conformity with existing URA constraints and possibly future WTO requirements on agricultural policy. Second, lower price levels to reduce the impact of the CAP on agricultural output reducing the cost of applying the CAP to the CEECs. This cost was further reduced by the not applying direct subsidies to the new Member States. Increased subsidy levels did, however, increase the cost of applying the policy in the EU15 and this, together with the additional cost in the new member states, meant that overall CAP expenditure rose substantially.

With structural policies there was to be significant expenditure in the CEECs, despite restricting the maximum amount a Member State was entitled to receive to 4% of GDP. Expenditure in the EU-15 was to be reduced in real terms after 2001, by restricting areas eligible to receive regional specific aid. Thus the criterion for eligibility for Objective 1 status was to be applied strictly. Other regional specific aid would be confined to new more narrowly Objective 2 regions. The Cohesion Fund was to be restricted to those states not participating in EMU. Even with these changes a large increase in structural expenditure was planned.

Expenditure in other areas was to be tightly controlled, so that overall the budgetary costs of enlargement were to be contained within the existing own resources revenue and expenditure ceiling of 1.27% of GNP. This was very stringent other enlargements had been accompanied with or followed by expansions in the budgetary resources available to the EU. The enlargement to CEE was also potentially the most expensive for the EU budget because of the very low income levels of the new Member States.

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[1] European Commission, 1997.

[2] Compensation was to be partial because full compensation in the 1992 McSharry had proved to be overcompensation because agricultural prices did not fall as much as guaranteed prices.

REACTIONS TO AGENDA 2000

The increase in EU expenditure proposed by Agenda 2000 went against the mood of budgetary consolidation in the EU 15. Particular countries and groups of countries had problems with other aspects of the proposals. The focus of controlling expenditure inevitable fell upon agriculture the largest single item in the budget. There were two basic ways in which agricultural expenditure could be reduced, first by fundamental reform of the CAP and second paradoxically by less reform of the CAP. Since most of CAP expenditure was now on direct subsidies, expenditure could be reduced by for example phasing out subsidies, or making national governments responsible for the whole or part of their funding. In the lead up to the Berlin Summit radical reform along these lines seemed possible. Since the major additional CAP cost in Agenda 2000 was additional subsidies to compensate for price cuts, an alternative route to reduce the budgetary cost was to reduce the size of the price cuts, and hence of the subsidies. This could have been difficult to reconcile with WTO commitments and negotiations. It would also mean CEE farmers would adapt to high prices, which are probably unsustainable in the long term.

Spain, Portugal and Greece were particularly concerned with reductions in their structural fund receipts.[1] The loss of cohesion funding was unacceptable to Spain, because the Conservative Prime Minister JOSÉ MARIA AZNAR, could not be seen to cede the hard fought concession, gained by his Socialist predecessor FELIPE GONZÁLEZ. Germany, the Netherlands, Austria and Sweden were not prepared to accept an increase in their net contributions to the budget were too high and should be reduced.

The CEECs were unanimously opposed to the proposal not to extend direct payments to them. Whatever the merits of the arguments put forward to justify this position, it runs up against the fundamental prohibition of discrimination in the EC Treaty (Article 12). The other concerns were technical relating to the application of direct payments and production quotas to the CEECs. The size of quotas and the value of direct payments depends upon past yields, but it is difficult to find a suitable reference period for the calculation of average yields in the CEECs. Besides the normal year to year variability in agricultural output, yields fell substantially in transition. In Hungary for example wheat yields fell from 5.2 tonnes per hectare 1998-90, to 3.9 1992-94 and 3.7 1998-2000.[2] The CEECs want to use pre-1989 yields but the Commission believes that these yields are distorted by the planned economic system. The Commission does accept that the early years of transition are not good indicators and proposes to use the most recent years as a reference period.

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[1] Ireland was already resigned to reductions because its rapid growth meant that GDP and GNP per capita were now above the EU average.

[2] Swinnen, 2002; p. 7.

THE BERLIN AGREEMENT 1999

The summit faced a fundamental contradiction of positions, between the desire by one group of Member States to reduce their net contributions, the unwillingness of others to increase their net contributions, the reluctance of others to countenance significant agricultural reform, and the need for additional expenditure in the CEECs. The obvious target was agriculture the largest single item of expenditure. Compensation for price reductions by subsidy was expensive; if price reductions were reduced, overall budget expenditure could be reduced. This was what was agreed at Berlin. Thus the 20% cut in cereal prices was reduced to 15%, the 30% cut in beef prices was reduced to 20%. Subsidies were reduced roughly proportionately to the price reduction, thereby saving expenditure on subsidies. Similarly reform of the milk quota system was delayed to 2005/6, so milk producers would require no additional subsidies. The smaller reductions in prices, meant that levels of production would be higher than with the original proposals, so compulsory set aside was to be 10% of the arable area whereas zero originally proposed. The effect of these changes was to substantially reduce expenditure on the CAP in the 2000-2006 period. Agenda 2000 proposed an increase in CAP expenditure in EU-15 of EUR 3.5 billion by 2000-2006, but the Berlin agreement assumes a reduction of EUR 2.7 billion. The Berlin Agreement did not change the agricultural proposals relating to the CEE, so direct payments were not be made in the CEECs during a transitional period.

The reforms to the structural funds agreed at Berlin were in line with Agenda 2000 but there were two groups of concession. First, it was agreed that the Cohesion fund could continue to apply to states that were members of euro area. Second, there was a list of what were called „Particular situations (2000-2006)" exceptional treatment for existing Member States to partially compensate for the effects of the structural policy reform. These concessions illustrate in a vivid way the process of compromise involved in the Berlin Agreement. They have been described as 'presents on the Christmas Tree' by HELEN WALLACE and 'pork barrel politics' by IAIN BEGG. The extent to which these particular situations are simply a mechanism for buying countries off is illustrated by the concession to the Netherlands. „In order to take account of the particular characteristics of labour market participation in the Netherlands, an additional amount of 500 million euros are allocated to Objective 3". Since the Netherlands has one of the lowest unemployment rates in the EU 15 it is difficult to understand the nature of these particular problems. The overall effect of these concessions is to raise structural expenditure marginally above the Agenda 2000 proposals. The extent to which these particular problems are side payments to achieve agreement is shown by the fact that the only EU 15 countries that do not benefit from these particular situations are Finland, Denmark, Luxembourg and France. Finland has a particular interest in enlargement and thus did not need to be bought off. Denmark and Luxembourg benefit little from structural funds because of the limited nature of their structural problems. France gained substantial concessions in agriculture.

Other areas of the Berlin agreement contained side payments to benefit particularly countries concerned with their net contributions to the budget. Thus the decision to raise the proportion of customs revenues retained to cover the cost of collection to 25% was designed specifically to reduce the Netherlands net contribution. The Netherlands but also Austria, Germany and Sweden also benefited from reductions in their contributions to finance the UK budget rebate. Thus the combination of a lower overall level of expenditure and these side payments were sufficient to satisfy the demands of those countries demanding a reduction in their net contributions.

THE BRUSSELS AGREEMENT 2002

The position reached at Berlin not to make direct payments to the CEECs came to be seen as untenable, so the whole issue of the budget and agriculture was on the agenda again. In January 2002 the Commission brought forward new proposals financing enlargement for 10 new member states rather than the 5 envisaged at Berlin,[1] and extending direct payments to the new Member States. The additional expenditure was limited by the small size of the new Member States.[2]

Despite the higher potential expenditure the ceiling agreed in Berlin for the new member states was to be retained. The cost of direct payments was reduced, by commencing payments in 2004 at a rate of 25%, with the 100% rate not reached until 2013. Lower spending on rural development measures also reduced the overall increase in agricultural expenditure. Although structural policies would apply to the five additional Member States expenditure was lower than in the Berlin Agreement. This was the result of the later entry date, which meant that the lower rates for 2002-2004 applied to the 2004-2006 period. This saving was sufficient to finance additional expenditure on agriculture, internal policies and administration, and still leave overall expenditure 2004-6 6% below the Brussels enlargement commitment appropriations.[3]

The Berlin Agreement provided for a mid-term review of the CAP[4] and this was completed in July 2002.[5] This was by CAP reform standards radical providing options for the reform of the dairy sector, decoupled[6] direct payments per farm, conditional upon compliance with environmental, animal welfare and food quality requirements. The necessary revision of the Berlin Agreement at the Brussels Summit October 2002, thus came to be seen as providing another opportunity for significant CAP reform.

These hopes were dashed by French[7] intransigence and the vital need for an agreement is the scheduled date for enlargement was not to be missed. At the Anglo German Summit shortly before the Council agreement was reached on a minimal reform package that formed the basis of the final Brussels Agreement.[8] There were five principal elements of the agreement: First, there was to be no extra expenditure for enlargement the ceiling agreed at Berlin is to be respected. Second, direct payments are to be extended to new member states at the rate of 25% in 2004 rising to 100% in 2013. Third, there is to be financial stability for CAP guarantee expenditure from 2007-13 cannot exceed in real terms

[1] The Laeken summit agreed that five additional countries Cyprus, Latvia, Lithuania, Malta and the Slovak Republic could be ready with the CEE 5 to join the EU in 2004 (European Council, 2001).
[2] The five new countries only added 8.1% to the population of the CEE 5.
[3] European Commission, 2002c; 2002d, 2002f.
[4] European Council, 1999, para. 21.
[5] European Commission, 2002e.
[6] Payments would not be related to area of crops planted or the numbers of cattle.
[7] With the support of Greece, Ireland, Portugal and Spain.
[8] European Council, 2002.

expenditure in 2006. Overall expenditure agricultural market related and direct payment expenditure 2007-13 shall be kept below 2006 plus 1% per annum. Four, this is without prejudice to provisions on the reform of the CAP in the Berlin Agreement and the international commitments of the EU including the Doha round. Five, if forecast cash flow under the budget is less than 2003 for any new member state compensation will be offered.[1]

BERLIN, BRUSSELS AND THE FUTURE FINANCING OF THE EU

The EU has agreed finances up to 2006, covering only the first three years of enlargement. During this period expenditure will be limited by the phasing in of direct payments and the gradual build up of rural development and structural fund projects.[2] Enlargement can take place within this financial framework but it is beyond 2006 that problems loom.

Recent analyses[3] suggest that the application of the current CAP to CEEC 8 will cost around EUR 10 billion in 2007.[4] In comparison with the spending limits agreed at Berlin and reaffirmed at Brussels, this represents a threefold increase in agricultural expenditure in the new Member States, an increase of 16% in the agricultural budget and of 6% in the overall budget of the enlarged EU.[5] In the short-term expenditure would not be at these levels, so what these figures highlight is the medium term problem of financing the CAP for the enlarged EU within the agreed financial limit.[6] The additional expenditure required is well within the own resources ceiling of 1.27% because Berlin planned for payments at 1.09% of GNP, 16.5% below the expenditure limit.[7]

In the longer term this problem could become even more acute with reform of the dairy and sugar sectors, which could be a result of new international trade commitments made in the WTO Doha Round. Reform of these sectors would probably require further direct subsidies, which could cost a further EUR 2 billion

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[1] This possibility arises because the new Member States will start making contributions to the budget and may find it difficult initially to generate projects for structural funding and rural development.

[2] The EU is projecting payment appropriations well below commitment appropriations over this period (European Commission, 2002f, Annex, p. 10).

[3] Silvis et al, 2001, Frohberg et al, 2001, Weise et al, 2001.

[4] The actual figures are EUR 10.13 billion Weise et al,2001; EUR 9.85 billion Silvis et al, 2001; and EUR 5.34 billion for market support to which say EUR 2.40 billion of rural development expenditure needs to be added, giving a total of EUR 8.74 billion for Frohberg and Weber, 2001.

[5] Compared with 2006 the end of the financial perspective.

[6] "The overall expenditure in nominal terms for market-related expenditure and direct payments for each year in the period 2007-2013 shall be kept below this 2006 figure increased by 1% per year." (European Council, 2002; para. 12)

[7] The margin is in fact higher than this because enlargement related payments are well below appropriations 2004-2006 (European Commission, 2002f).

in 2007 and EUR 4.3 billion in 2013.[1] If these reforms were made, additional agricultural expenditure in the new Member States would increase total additional expenditure equal to 26% of the agricultural budget and 10.5% of the overall budget for the enlarged EU, well beyond the Brussels limit. In the longer term expenditure would stabilise but further enlargement to include Bulgaria and Romania (AC 12) is likely, this could add another EUR 4 billion to the budget, placing further pressure on the Brussels limit.

Unlike the agriculture, structural expenditure is predicted to expand in the medium term, as the new Member States per capita GDP grows, but most of their regions remain within the Objective 1 limit. Structural expenditure in the AC 10 is predicted to grow from EUR 11 billion in 2007 to EUR 18 billion in 2013, with a further EUR 4 billion if the EU expands to 27 members.[2] With structural spending in the EU 15 predicted to fall from EUR 30 billion in 2007 to EUR 22 in 2013 mainly as a result of regions losing their Objective 1 status. Thus the AC 10 structural expenditure would grow from 33% of that in the EU 15 in 2007 to 61% in 2013, 76% in 2013 for the AC 12.

These additional expenditures can be financed within the current 1.27% GNP financial ceiling. With unchanged policies expenditure in the EU 25 in 2013 will amount to 1.09% of GDP, and for the EU 27 1.12% of GDP.[3] The figure for the EU 25 is exactly the projected rate for 2005 and 2006 in the Berlin Financial Perspective. For the EU 27 and including reform of the sugar and milk sectors would raise the figure 1.13% of EU GDP, above the Berlin levels but still well below the overall financial limit. So enlargement on unchanged policies can be financed within the existing budget.

IMPLICATIONS OF THESE BUDGETARY AND POLICY OUTCOMES

The process of budgetary negotiation related to enlargement has been driven by this need for financial stringency. Hard decisions have been avoided and policy reform has been minimised, because reform either has significant budgetary implications for individual Member States, or for all due to side payments. Consequently there has been a need to minimise expenditure in the new Member States, e.g. by the maximum 4% GDP for structural funding. Where expenditure could not be avoided it has been delayed, most obviously by phasing in direct payments.

The structural policy outcome is reasonable, it is doubtful if the accession states could use structural funds beyond 4% GDP. As their incomes expand and their ability to absorb expenditure expands they will be able to obtain more funding.

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[1] Swinnen, 2002, Table 6, p. 11.

[2] Weise, 2002, Table 1.

[3] Using the estimate of Weise, 2002 Table 1 plus another 0.21% of GDP for other policies which is the 2004-2006 level.

The CAP outcome is unsuitable for the EU 15 and the new Member States. The EU 15 priorities for agriculture have moved away from supporting farm revenues, to rural development, the environment, animal welfare and food quality, the current CAP fails to reflect this shift. The extension of the direct subsidies to the accession countries will create a new constituency in favour of the current CAP.

The current CAP is unsuited to the needs of the new Member States their absolute benefits will be lower than the current EU 15 because direct payments and quotas will be based on low yields. Controlling output will prevent these countries from expanding output from its current low levels to exploit their comparative advantage in agriculture. The current CAP will slow structural change in agriculture, which may be desirable socially, but probably not economically. Higher expenditure on the CAP will limit expenditure in these countries on other more desirable structural policies.

PLUS ÇA CHANGE?

As DAVID WILLIAMSON's perceptive observation indicates, enlargement has always become involved with the minutiae of policy, with Member States striving to preserve their national interest. So in some respects this indicates that the current enlargement process is business as usual. There is, however, one clear difference from past enlargements: the increasing reluctance to contemplate increases in budget expenditure, indeed the desire to reduce and control expenditure. This is despite the fact that potentially this enlargement required a greater increase in budgetary resources than previous enlargements.

Policy reform was difficult enough in the EU because of the political strength of vested interest, not least in agriculture. There is also heterogeneity of national interests in both the main spending areas agriculture and the structural policies. Enlargement will reinforce these difficulties, especially as the farmers of the new Member States, have been added to those in the EU 15 in benefiting from CAP largesse. When combined with an emphasis on EU budgetary austerity these characteristics threaten gridlock in policy reform. The policies cannot be reformed, because there can be no additional expenditure to compensate Member States who lose from the change, and there are no financial resources, as the policies cannot be reformed. At the heart of this reluctance to increase financial resources is the failure of the EU to develop a budget that distributes the direct costs and benefits of membership fairly among Member States. This has of course been a recurring problem since budgetary expenditure started to expand in the 1960s, so in this sense the current problems are indeed, plus ça change.

Table 3
*The Berlin and Brussels financial perspectives and projections of budgetary expenditure**

EU 15	2004	2005	2006	2007[3]	2013	2015
	Berlin Agreement					
Agricultural guarantees	42760	41930	41660			
Structural operations	29595	29595	29170			
Internal policies	6100	6150	6200			
External operations	4590	4600	4610			
Administration	4900	5000	5100			
Reserves	400	400	400			
Pre-accession aid	3120	3120	3120			
EU 15 total commitments	*91465*	*90795*	*90260*			
CEE 5						
Agricultural	2450	2930	3400			
Structural operations	7920	10000	12080			
Internal policies	790	820	850			
Administration	450	450	450			
CEE 5 total commitments	*11610*	*14200*	*16780*			
CEE 5 Payments	8890	11440	14220			
EU 21 total commitments	*103075*	*104995*	*107040*			
EU 21 Payments	100800	101600	103840			
AC 10	**Brussels Agreement**					
Agricultural	2048	3596	3933	10000[1]	10600[2]	8400[3]
Structural operations	7067	8150	10350	11000[3]		18400[3]
Internal policies	1176	1096	1071			
Administration	503	558	612			
AC 10 Commitments	*10794*	*13400*	*15966*			
AC 10 Payments	5686	10493	11840			
EU 25 Commitments	*102259*	*104195*	*106226*			
AC 12						
Agriculture				14000[2] 15500[3]	15000[2]	14000[3]
Structural Policy				11800[3]		22300[3]

1. Swinnen, 2002, Table 6. p.11; Weise, 2002, Table 1.
2. Swinnen, 2002, Table 6. p.11.
3. Weise, 2002, Table 1.
** Source: European Council, 1999; 2002; European Commission, 2002f.*

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