

ON THE FUTURE OF THE FINANCIAL REDISTRIBUTION ACROSS MEMBER STATES IN THE EU¹

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The order and modalities of cross-member state redistribution as well as the net financial position of the member states are one of the most widely discussed aspects of European integration. The paper addresses selected issues in the current debate on the EU budget for the period 2007 to 2013 and introduces four scenarios. The first is identical to the European Commission's proposal; the second is based on reducing the budget to 1% of the EU's GNI, as proposed by the six net-payer countries, while maintaining the expenditure structure of the Commission's proposal. The next two scenarios represent radical reforms: one of them also features a '1% EU GNI'; however, the expenditures for providing 'EU-wide value-added' are left unchanged and it is envisaged that the requisite cuts will be made in the expenditures earmarked for cohesion. The other reform scenario is different from the former one in that the cohesion-related expenditures are left unchanged and the expenditures for providing 'EU-wide value-added' are reduced. After the comparison of the various scenarios, the allocation of transfers to the new member states in terms of the conditions prevailing in the different scenarios is analysed.

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

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

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INTRODUCTION

Redistribution across member states in the EU is designed in multi-annual financial frameworks. The full weight of enlargement-related challenges will appear in the financial perspectives for 2007–2013. In this paper two moderate and two radical reform scenarios are introduced for the redistribution across member states. The scenarios reflect the ongoing discussions on the size and structure of the future EU budget, possible net financial positions and efficiency of EU transfers. Finally, the impact of the various scenarios on the new member states is addressed.

REDISTRIBUTION ACROSS MEMBER STATES IN RETROSPECT

The post-World War II world economy saw the rise and fall of various economic blocs in Europe, the Americas, Asia and Africa. In terms of duration and designs as to the extent of integration among its member states, the bloc known as the European Union has been the most long-lived and ambitious of them all.² The European Union (EU) differs from any other operational or planned entities of a similar nature as it has already progressed to being both an economic and (partial) monetary union, certain trappings of statehood.

A strikingly unique and particularly important feature of EU integration is the redistribution of resources across member states. This has grown from a modest level in the early stages of the European integration to its present volume. Accounting for approximately 1% of the Union's GNI, it is rather small compared to the nation-wide redistribution of resources by the general government in individual EU member states (in 2003 the figures ranged from 35.2% of the GDP in the Republic of Ireland to 58.3% in Sweden) (Eurostat Yearbook 2004: 136); however, it is huge when viewed in the context of economic integration among independent states and also from the point of view of the major net beneficiary member states.

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

² For the sake of simplicity, this paper also uses the term 'European Union' for developments prior to 1993 when the term 'European Community' was still being officially used to describe what has since come to bear the name European Union following the Maastricht Treaty.

THE EU BUDGET AT THE CROSSROADS OF REFORM³

The EU budget has long been the target of criticism. Politicians and experts alike have made a number of recommendations about what and how to change in the redistribution across EU member states. The proposals may differ widely in terms of content, direction of change and modalities of implementation. Next follows a review of alternative approaches to budgetary reforms.

The size of the EU budget

The Commission's proposal – the net payers' view

How large will the next EU budget be? The Commission proposed an EU budget in the order of 1.26% of the EU GNI on average for the period 2007–2013, in terms of commitment appropriations. This corresponds to 1.14% of the EU GNI in payment appropriations.⁴ The six most important net-payer member states⁵ declared in the earliest stage of the discussions that they were not ready to contribute more than 1% of their GNI to the EU budget in terms of commitments (0.91% in payment appropriations). We may thus take 1% as the lower end of the budgetary scale. Nonetheless, one can quite safely predict that potential net beneficiaries⁶ in the period 2007–2013 will not have enough leverage to achieve a higher rate of contribution than that proposed by the Commission, which we can take for the upper limit for the size of the budget.

³ For a review of conceptual issues of cross-member state redistribution in the EU see Richter (2005: 2–5).

⁴ Commitment appropriations refer to transfers committed in a given year. The actual payment of these transfers may take place in that year or in the following years. Payment commitments refer to transfers that are planned to be disbursed in a given year. These transfers were committed either in that year or in previous years. Part of the commitments will never be paid due to various reasons. In 2007–2013 payments are planned to lag behind commitments by about 10% in the period average.

⁵ Member states whose contribution to the EU budget regularly exceeds their revenues from the EU budget. (The six major net payers are Germany, Austria, France, the Netherlands, Sweden and the UK.)

⁶ Member states whose revenues from the EU budget regularly exceed their contributions to the EU budget.

Revenue side of the budget

European level approach – member state level approach

The present system is a mixed bag; it comprises a minor source at the European level, the traditional own resources (TOR),⁷ with a much larger share of the revenues coming from the national treasuries (VAT based and GNI based contributions).

‘Away from national treasuries’ could be the slogan for the European-level approach proposed by the European Commission.⁸ A new tax imposed on energy or personal incomes would create a direct link between the EU corporate sector and/or the EU citizens with the EU budget. National treasuries would be out of the game, hopefully with the effect of eliminating the dreaded ‘*juste retour*’ approach that member states adopt towards EU budgetary issues. This, however, is only an apparent solution since any option entailing one or more new EU-level resources would result in member state-specific and non-uniform contributions. Taking the example of energy consumption, an EU tax imposed on it may well be intrinsically different in a northern country such as Finland, with its cold winters and long distances to be driven, as compared to a small country with a warm climate such as Malta or Cyprus. In all probability the ‘*juste retour*’ approach would not disappear, but merely shift and the discussion about ‘who pays how much’ would become even more embittered and hinge on even less reliable calculations than those currently applied.

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

Evolutionary reform – revolutionary reform

As for the development of the own resources system in the EU, the adjective ‘evolutionary’ is clearly apposite. Parallel to the increasing significance of the EU budget and its growing relative weight, new components have been introduced

⁷ Customs duties and levies collected at the external border of the customs union.

⁸ For a detailed description of the EU financing system see European Commission (1998).

from time to time, whereas no previously introduced components have been eliminated. In this sense, the Commission's proposal for a European tax is without doubt revolutionary. In the light of the member states' reactions to the Commission's proposal, the proposed changes will be most probably postponed to beyond 2013.

Open interest conflicts – hidden interest conflicts

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

Expenditure side of the EU budget

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

Structural Policy and the Common Agricultural Policy (CAP) make up about three quarters of the EU budget expenditures in both the current and future financial perspective.⁹ Although the protectionist system of agricultural subsidies has long been criticized, direct payments to farmers and market intervention are obligatory expenditure items pursuant to a decision of the European Council in October 2002. Without (an unlikely) revolutionary change, this will not end or undergo radical transformation before 2013.¹⁰ Criticism of the Structural Policies, though voiced less loudly, does exist as critics point to the limited efficiency and minimal EU-wide value-added of Structural Policy-funded projects (Bachtler – Wishlade 2004: 43).

⁹ According to the current financial perspective and the Commission's proposal for 2007–2013. Calculation based on data in European Commission (2004: 43).

¹⁰ Expenditures may be cut following a Doha round decision on elimination or rather further reduction of export subsidies. Changes in the CAP paying modalities also may have some expenditure-reducing effect.

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

‘Something for everyone’ – focusing on the neediest member states

In the pre-enlargement EU, all member states (except Denmark and Luxembourg) received some sort of transfers within the Structural Policy framework. The Commission’s proposal for 2007–2013 hardly represents a departure from the pre-enlargement practice of ‘something for everyone’. Spending programmes are earmarked for all regions below 75% of the enlarged EU average per capita GNI. On top of that, funds will be made available for regions that do not correspond to this requirement solely for statistical reasons (‘phasing out’ regions), as the enlarged EU average per capita GDP is lower than the respective value prior to enlargement. Furthermore, some regions are, provisionally, to receive support. These ‘phasing in’ regions exceed the 75% eligibility rate owing to their economic growth and should be sheltered from the ‘cold turkey’ effect.

The antithesis to this approach would be a Structural Policy in which the focus is on the most needy member states as recipients. This is exactly what the six net-payer member states have been proposing; they link their demand for the 1% GNI budget to an appropriate focusing of expenditures. Some experts go even further; one proposal recommends setting the eligibility limit at a level of development equivalent to 50% or below of the EU average per capita GDP.¹¹ In all likelihood, by 2007 only one current member state (Latvia) or none will meet this strict criterion, as will Bulgaria and Romania if they manage to accede in that year.¹² If, parallel to this, the 4% GDP proportional ceiling for Structural Policy expenditures were to be observed, the consequence would be a radical reduction in convergence-enhancing programmes across the board. This would, however, imply a radical reduction or even full elimination of transfers to ‘phasing out’ and ‘phasing in’ regions.

¹¹ As a second best solution, if structural policies cannot be terminated completely (Boldrin – Canova 2003: 83).

¹² Own estimations calculated in PPS and based on New Cronos data for 2003 and forecast for 2004.

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

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

One extreme of possible changes in this area is the full concentration of Structural Policy expenditures on regions. That would fit in with the concept of ‘Europeanizing’ budgetary revenues and expenditures (Europe of the regions versus Europe of the member states). The other extreme is the termination of EU budgetary support for regions. Instead, expenditures would either support such items as trans-European infrastructure, telecommunication and education or fund transfers for individual member states. Efficiency considerations would justify both options (Martin 2003, Boldrin – Canova 2003).

In terms of the allocation of regulatory power, the two solutions diverge sharply. To all intents and purposes, Structural Policy support for individual member states would be tantamount to re-nationalizing regional policy, even if it were to ensue along strict EU guidelines. That would constitute a strengthening of the member states and a weakening of EU competences. Structural Policy spending focused on the trans-European level would strengthen EU competences, while diminishing those of member states.

Terminating national co-financing – increasing national co-financing

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

The other end of the domain is the maximum extent of national co-financing in all EU financed projects. Compared to the practice today it would mean that agricultural support (market intervention and direct payments) would be partially re-nationalized as currently there is no national co-financing in this field, except for the provisional option offered to new members to top up the meagre and only gradually increasing direct payments from the EU budget in the first few years of membership. For the programmes which have already been nationally co-financed the changes would mean a higher proportion of national financing (with contribution from the national treasury, local authorities, private firms, NGOs). Extension of national co-financing would mean an increasing number of

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

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

Broad spectrum of targets – narrow spectrum of targets

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

A narrower range of spending targets might involve large-scale changes (such as the termination of agricultural support and/or the partial or complete elimination of regional policy) as well as changes on a lesser scale within individual major spending programmes. One ‘reductionism’ idea that keeps cropping up is the proposal to terminate support to firms (private and public alike). It is argued that financing that sector should be left to the commercial banking sector. An even more radical notion is to limit expenditures under the EU budget to the funding of essential infrastructure where the existence of a ‘European value-added’ is beyond any doubt (Boldrin – Canova 2003: 83–84, Martin 2003: 30, Steinherr 2003: 108, Funck et al. 2003: 10).

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

In principle, rules governing the utilisation of EU funds should be the same across all member states; they should comply with the equal treatment requirement. Even today, however, they vary somewhat according to groups of member states. Increasing efficiency would require a more diverse set of spending rules. Splitting

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

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

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

Net financial balance

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

In the prevailing EU budgetary system, revenues from individual member states and expenditures allocated to them are not interrelated. Both the own resources system and the expenditures include components that make it impossible to calculate ex-ante the exact net financial position, although an estimation of the magnitude of that position is possible.¹³

¹³ Nonetheless, it would be possible to introduce a system with a pre-fixed net balance. That requires fixing member states' contributions exactly as well as a fixed national envelope for ex-

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

Member state interests expressed indirectly – member state interests expressed openly

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

It is often heard that a member state's net financial balance does not indicate how much the country gains from EU membership. This statement is true; however, it certainly has its limitations. Up to as late as 1994, the Commission's reluctance to talk about redistribution in the Union went so far that it refrained from publishing details of the allocation of revenues/expenditures across member states (Stegarescu 2001). The Commission's proposal for the reform of the EU budget's revenue side via the introduction of a European tax on either corporate income or energy fits in exactly with this line of thinking; national treasuries should be kept as far away as possible from the issue of contributions to the EU budget. Instead, the citizens or enterprises of Europe should contribute to the common European budget. The core of this approach is to ignore, as much as possible, the differences across member states in terms of contributions to and transfers from the EU budget. Despite the semi-transparent procedures, this works as long as the member

penditures, both calculated for a year, and finally a compensatory system that adjusts to the difference between the pre-fixed and actual financial position of individual member states in any single year.

states' interests are respected to a certain extent. As the case of the UK rebate shows, when the vital interests of a member state are at stake, this nebulous approach reaches its limits. As the case of the Austrian, Dutch, German and Swedish rebate or the UK rebate shows, one discretionary intervention opens the door to a sequence of corrective measures to comply with the needs of those member states whose interests are seen to have been hurt.¹⁴

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

SCENARIOS FOR THE EU BUDGET 2007–2013¹⁵

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

The first of the scenarios presented below is identical to the Commission's proposal published in February 2004 for the EU budget for 2007–2013 (European Commission 2004). The other scenarios were constructed by the author of this pa-

¹⁴ The UK has been re-compensated for its excessive negative net financial position *vis-à-vis* the EU budget since 1984. Since 2002 four net-payer countries' contribution to the financing of the UK rebate has been reduced to 25% of their normal share (European Commission 2004: 38). It is worth mentioning that the new members are also contributing to the financing of the UK rebate.

¹⁵ A couple of elaborated scenarios have been elaborated for the 2007–2013 EU budget: Weise (2003), Quaisser-Hall (2002), Karlsson (2002), Sapir (2003) and IBO (2002). For a comparison of these scenarios see Richter (2005: 28–36).

per. Nevertheless, they all rely to some extent on the Commission's original proposal. That is all the more expedient as ongoing discussions on the future EU budget also rely on that framework. Consequently, headings and sub-headings for the main policy areas, as well as determinants of the CAP have been drawn from the Commission's proposal (see *Table 1*, *Figure 1* and *Annex Table A1*). A common feature of all scenarios is that the values for two items of expenditure never change: (a) direct payment for farmers and market intervention within the agricultural expenditures for reasons mentioned earlier; and (b) expenditures on administration. The latter is explained by the assumed rigidity of related outlays under any circumstances.

Moderate reform scenarios

1A: The Commission's proposal

In this scenario, it is assumed that the member states approve the propositions put forward by the Commission in February 2004.¹⁶ Nevertheless, this scenario cannot be labelled status quo because the Commission's proposal represents a partial departure from the spending structure of the current financial perspective (2000–2006). The newly created section *Competitiveness* (sub-heading 1a) seems to be more than just a somewhat inflated version of current internal policies. Furthermore, the funding of individual programmes will be simplified and become more transparent than it is today. An important new element will be the introduction of a general correction mechanism to address the problem of excessive negative net financial positions.

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

This scenario is based on the assumption that the Commission will be able to convince the main net-payer member states to accept the redistribution rate proposed by the Commission (1.26% of the EU GNI in commitment terms, 1.14% in payment terms, on average in 2007–2013). In the bargaining process, a slightly lower redistribution rate may still be the final outcome, designed to 'save the face'

¹⁶ For a detailed description of the Commission's proposal see pp. 32–33, Annex Table A1.

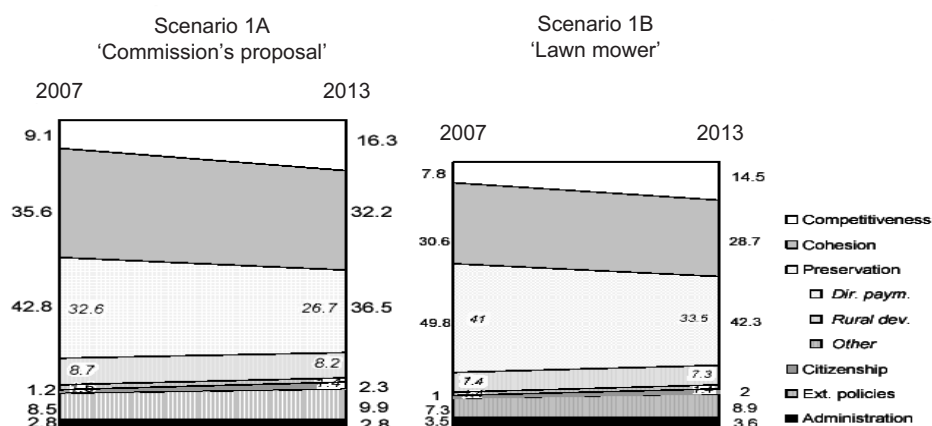


Figure 1. The composition of expenditures of the European Union's budget in 2007 and 2013 in various scenarios (%)

of the six major net payers who protested fiercely against the Commission's proposal in that respect. Should this attempt fail, we will have to shift to Scenario 1B.

1B: The Commission's proposal reduced to 1% of EU GNI

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

As in a moderate reform scenario, it is assumed that no rearrangement in the spending targets will occur. In practical terms, this means that in order to arrive at a 1% budget, all items (except for administration and agriculture, which remain constant) will be reduced by the same proportion, and for this reason this scenario can also be labelled as the 'lawnmower' method.

Radical reform scenarios

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

Table 1
The composition of expenditures in the European Union's budget in 2007 and 2013, various scenarios (%)

Expenditures	2006 <i>plan</i>	2007 scenarios				2013 scenarios			
		1A	1B	2A	2B	1A	1B	2A	2B
1. Sustainable growth									
1a Competitiveness	7.3	9.1	7.8	11.4	0.0	16.3	14.5	20.5	6.6
Education & Training	0.5	0.7	0.6	0.9	0.0	1.7	1.5	2.2	0.7
R&D	4.4	4.7	4.1	6.0	0.0	8.6	7.7	10.8	3.5
Transport, Energy and Telecom networks	1.0	1.3	1.1	1.6	0.0	3.0	2.7	3.8	1.2
Growth Adjustment Fund	0.0	0.7	0.6	0.9	0.0	0.6	0.6	0.8	0.3
Internal market, social policy, administration, etc.	1.4	1.6	1.4	2.0	0.0	2.3	2.1	2.9	0.9
1b Cohesion	32.1	35.6	30.6	19.0	44.8	32.2	28.7	14.7	40.4
Convergence incl. statistical 'phasing out'	23.7	26.0	22.3	13.9	32.7	25.3	22.6	11.5	31.8
Regional competitiveness incl. 'natural' phasing out	5.8	7.4	6.3	3.9	9.2	4.7	4.2	2.1	5.9
European territorial co-operation	1.6	1.3	1.2	0.7	1.7	1.4	1.3	0.6	1.8
EU Solidarity Fund	0.8	0.7	0.6	0.4	0.9	0.5	0.5	0.2	0.7
Other (incl. administration, etc.)	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.1	0.3
2. Preservation and management of natural resources									
Direct payments and market intervention in agriculture	46.4	42.8	49.8	53.8	51.9	36.5	42.3	45.9	44.5
Rural development	36.2	32.6	41.0	41.0	41.0	26.7	33.6	33.6	33.6
Fishery instrument	8.7	8.7	7.4	10.9	10.9	8.2	7.3	10.3	10.3
Environment	0.8	0.8	0.7	1.0	0.0	0.7	0.6	0.9	0.3
Other (incl. administration, etc.)	0.2	0.2	0.2	0.3	0.0	0.3	0.2	0.3	0.1
	0.5	0.6	0.5	0.8	0.0	0.6	0.6	0.8	0.3

Table 1 (cont.)

Expenditures	2006 <i>plan</i>	2007 scenarios			2013 scenarios				
		1A	1B	2A	2B	1A	1B	2A	2B
3. Citizenship, freedom, security & justice	1.1	1.2	1.0	1.5	0.0	2.3	2.0	2.9	0.9
Fundamental rights, migration, fight against crime, etc.	0.4	0.5	0.4	0.6	0.0	1.1	1.0	1.4	0.4
Public health, consumer prot., culture, citizenship, adm., etc.	0.7	0.8	0.6	0.9	0.0	1.2	1.1	1.5	0.5
4. External policies: The EU as a global partner	9.3	8.5	7.3	10.7	0.0	9.9	8.9	12.5	4.0
The EU and its neighbourhood	3.4	2.5	2.1	3.1	0.0	3.0	2.7	3.8	1.2
The EU as a sustainable development partner (incl. EDF)	4.0	3.6	3.1	4.6	0.0	4.3	3.9	5.4	1.7
The EU as a global player	0.6	1.2	1.0	1.5	0.0	1.3	1.1	1.6	0.5
Loan guarantee and emergency aid reserves	0.4	0.3	0.3	0.4	0.0	0.3	0.2	0.3	0.1
Other (incl. admin.)	0.9	0.9	0.8	1.1	0.0	1.0	0.9	1.3	0.4
5. Administration	2.8	2.8	3.5	3.5	3.3	2.8	3.6	3.6	3.6
Compensation	0.9								
TOTAL (Commitment appropriations)	100	100	100	100	100	100	100	100	100

Source: Annex Tables A1 to A4.

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

Scenario 2A: 'More competitiveness'

In this scenario the guiding principle is to foster the creation of public goods EU-wide. That target can best be achieved with programmes under sub-heading 1a *Competitiveness* (see *Table 1*). Once again, the starting point for the scenario is the Commission's original proposal. The budget reduction will be confined to 'less efficient' expenditures¹⁷ earmarked for the convergence of less developed regions or member states. In practical terms, this means that all spending in the Commission's original proposal would be kept intact, except for the spending under sub-heading 1b, *Cohesion*.

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

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

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

In a decentralizing version, *Competitiveness* transfers would be only partially allocated to national envelopes, with significant room being left for open competition for projects across member states. Rules for convergence spending targets for less developed member states are more relaxed in this scenario, with a broader range of eligible programmes. An ever-increasing share of the transfers would appear in the form of preferential credit instead of subsidies. National co-financing

¹⁷ For a discussion on the efficiency of Structural Policy see Funck – Pizzati (2003).

rates would be modest, indicating weak EU-leverage. Owing to partially free competition for resources, a wider spread of net financial positions may emerge; the introduction of a general corrective mechanism is thus of vital importance.

The two versions differ only in the degree to which decisions are centralized, but not in terms of expenditures.

Scenario 2B: 'More cohesion'

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

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

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

In this scenario, redistribution across member states plays a much more important role than in the previous scenarios. Consequently, there would be a shift to-

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

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

Numerical projections for the scenarios

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

The projected breakdown by policy area in individual scenarios was calculated as follows. Two items, market-related expenditures and direct payments in agriculture under heading 2, as well as the whole of heading 5 Administration retained the value they had in the Commission's original proposal;¹⁸ they thus figure as constants in each scenario. Those items are assumed to remain unchanged under all conditions for reasons mentioned earlier. In the moderate reform scenario 1B all other expenditures were reduced to the same extent. In the radical reform scenarios apart from the two constant items mentioned above, the other items selected remained unchanged and all other expenditures were reduced at the same rate. In scenario 2A 'More competitiveness' the total reduction affected *Cohesion* alone. In scenario 2B 'More cohesion', heading 1b *Cohesion* and Rural development remained unchanged, other items were reduced proportionally. The steps followed in the calculation can be seen in the upper segment of *Annex Tables A1* to *A4*.

Moderate reform scenarios

In the Commission's original proposal (Scenario 1A) only one item displays far-reaching changes over all seven years. It is sub-heading 1a *Competitiveness*, whose share goes up from less than 10% to over 16% over the period 2007–2013 (see *Table 1*, *Figure 1* and *Annex Table A1*). Of the most important items, *Cohesion* will shrink slightly: from more than one third to somewhat less than one third of expenditures. The decrease is more spectacular in direct payments and market intervention in agriculture under heading 2: from about one third to one quarter of the expenditures. There will be a marginal increase in the share of External Policies (heading 4) and the share of a relatively tiny item under heading 3 Citizenship, etc. will almost double.

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

All of the Commission's detailed plans for the period 2007–2013 are expressed in terms of commitment appropriations. The debate on the next financial perspective will also take place against the backdrop of commitment appropriations. In that context, the figure drops from EUR 1025 billion, the total envisaged expendi-

¹⁸ Council of the European Union (2004a).

tures for seven years, to EUR 815 billion for the same period. This represents a reduction rate of 20.5%.

It is expedient to put these figures in context. In the Commission's proposal, expenditures were to grow annually by 4%; in 2013 they would be 31.3% higher (at constant prices) than in 2006. In Scenario 1B, budgeted at 1% of GNI, the annual growth in expenditures would be 0.6% and the compound growth rate for 2013/2006 would amount to only 4.4%. The EU-27 GDP (at constant prices) is estimated to grow by 14.8% over the seven-year period concerned: an annual growth rate of 2%.¹⁹

In Scenario 1B, Administration plus direct payments for farmers and market intervention remain unchanged compared to the Commission's original proposal (Scenario 1A). The rate of reduction for the remaining expenditure items is thus higher than the 20.5% rate of the overall cut, ranging from 32% (in 2007) to 29% (2013), respectively (see *Table 1*, *Figure 1* and *Annex Table A2*).

As 1B is a moderate reform scenario, no major re-arrangements are to be seen across the items of expenditure by policy area. In some areas, the changes are still significant. The share of direct payments and market interventions will be higher than in the original proposal: in 2007 by about 4 and in 2013 by about 8 percentage points. The share of spending on *Cohesion* will be lower by 5 percentage points in 2007 and by 3.5 points in 2013 compared to the level originally projected. Up until 2012 the share of direct payments and market interventions will be higher than in 2006, the final year of the current financial perspective, although the member states would like to see a decline in the relative importance of that item.

Radical reform scenarios

The radical reform scenarios were elaborated on the assumption that the 1% GNI ceiling would apply throughout the period 2007–2013. In both radical scenarios, this assumption determines the total expenditures available in individual years.

Scenario 2A 'More competitiveness' is based on the assumption that resources for *Cohesion* will be radically decreased, while all other items keep their values as set out in the Commission's original proposal (see *Table 1*, *Figure 2* and *Annex Table A3*). Consequently, sub-heading 1b shrinks dramatically. Compared to the Commission's original proposal, the reduction in the 'best' year (2007) is 57.5% and in the worst year (2013) it is over 62%. The cut, compared to the Commis-

¹⁹ For 2006 Bulgarian and Romanian estimated GDP data were added to the estimated EU-25 GDP. The EU estimate for the EU-27 GNI growth over the seven years is 17.3% or 2.3% annually. Council of the European Union (2004a: 5).

sion's original proposal, is also substantial in absolute terms: it amounts to EUR 27 billion in the first year of the period and to EUR 42 billion in the final year. Even more remarkably, expenditures earmarked for *Cohesion* in 2006, the final year of the current financial perspective (see Scenario 1A), are higher than in any year in the period 2007–2013. In 2013, expenditures on *Cohesion* will amount to less than half the amount in 2006, the year preceding the accession of Bulgaria and Romania.

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

In the other radical reform scenario, Scenario 2B 'More cohesion', the items that remain unchanged beyond the usual 'constants' are under sub-heading 1b *Cohesion* and Rural Development (see Table 1, Figure 2 and Annex Table A4). Both reflect the emphasis being placed on redistribution favouring the less developed member states and regions. Taken together, the items mentioned here amount to nearly 80% of the total expenditures envisaged for 2007 in the Commission's original proposal. This means that while these items will not be reduced, the remaining 20% will have to bear the brunt of the cut-backs in total expenditures so as to comply with the 1% GNI ceiling. The decrease is so radical in the segments concerned that in 2007 it would not be possible to allocate money to any other policy areas than those whose expenditures remained unchanged. That, however, would not suffice either. Consequently expenditures allocated to heading 5 Administration will have to be cut by EUR 126 million in order to observe the ceiling set for total expenditures in that year. After 2007, the situation slowly changes as the relative weight of direct payments to farmers and *Cohesion* decreases and that of *Competitiveness* increases. The rate of reduction drops from 92% in 2008 to 68% by 2013.

The breakdown of expenditures by policy area clearly shows that in the first year of the new financial perspective, the policy areas bearing the brunt of the cuts are practically annihilated. In the following years, they will have to be completely re-designed in order to accommodate the reduction in funds. It is interesting that the most future- (or efficiency-) oriented policy area, *Competitiveness*, will

achieve a share of close to 7% by 2013; that, however, is still lower than what it will be (7.3%) in 2006, the closing year of the current financial perspective.

Comparing the two radical reform scenarios, the differences are spectacular (see *Table 1*, *Figure 2* and *Annex Tables A3, A4*). In the period 2007–2013 a total of EUR 345 billion is allocated to *Cohesion* in the scenario ‘More cohesion’ and about a 40% less, EUR 135 billion, in the scenario ‘More competitiveness’. Over the seven-year period the sub-heading *Competitiveness* absorbs EUR 133 billion in the scenario ‘More competitiveness’, yet less than one fifth of that, a mere EUR 28 billion, in the scenario ‘More cohesion’.

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

New members’ position in the various scenarios

The Commission’s proposal for the next financial perspective reckons with an approximately 50:50 participation of the ‘old’ and ‘new’ EU member states in expenditures for *Cohesion*, respectively.²⁰ Taking this proportion as a constraint, which must be observed, it is possible to calculate the transfers that individual ‘new’ members are likely to get in the various scenarios as a percentage of their GDP. Three groups were created: (a) the largest group comprising the eight less prosperous ‘new’ member states with per capita GNI (at PPS) below 75% of the EU-27 average in 2007; (b) two countries, the Czech Republic and Malta, with per capita GNP (at PPS) between 75 and 80% of the EU-27 average; and (c) another two countries, Cyprus and Slovenia, with per capita GNP (at PPS) between 80 and 90% of the EU-27 average (*Table 2*).

As the figures in *Table 2* indicate, not even in the most favourable case for the new members, i.e. Scenario 1A and 2B, will all the ‘new’ members be able to get the maximum 4% of their GDP. In the group of eight less prosperous ‘new’ members, each may receive about 3.5% of its GDP, while the four more prosperous countries would receive less than that: 2.5 and 2%, respectively. In Scenario 1B, the ‘new’ members would receive substantially less, and even the most privileged poor member states would receive only 2.5% of their GDP. Certainly the least favourable situation emerges in Scenario 2A ‘More competition’, with the more

²⁰ More exactly 51.7% vs. 48.3%. Scenario Financier 2007–2013, an unpublished document of the European Commission, as cited by Bachtler – Wislade (2004: 25 and 35).

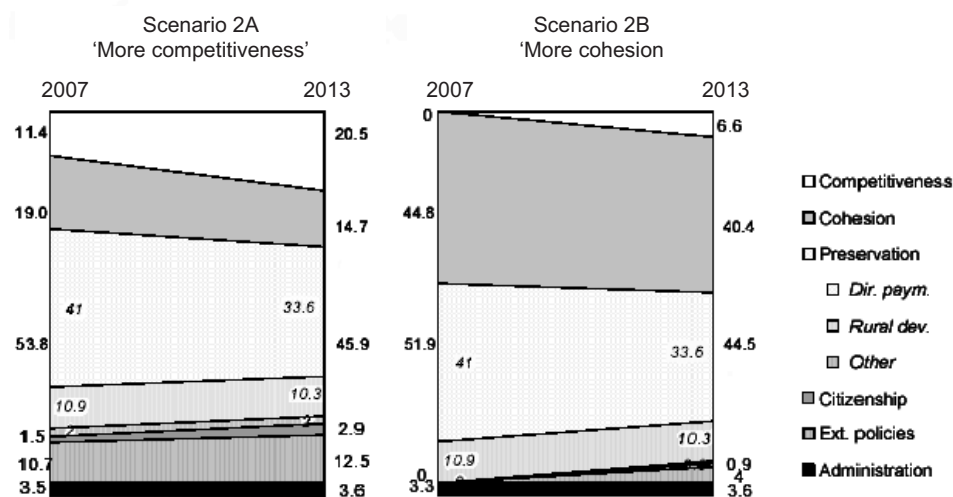


Figure 2. The composition of expenditures of the European Union's budget in 2007 and 2013 in various scenarios (%)

prosperous 'new' members getting less than 1% and the less prosperous obtaining less than one and a half percent of their GDP.

Provided that member states choose to focus on the neediest 'new' member states as their priority in allocating *Cohesion* expenditures and drop the idea of a

Table 2

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

Member state	Scenario 1A and 2B	Scenario 1B	Scenario 2A
Cyprus	2	1	0.4
Slovenia	2	1	0.4
Czech Republic	2.5	1.5	0.7
Malta	2.5	1.5	0.7
Hungary	3.5	2.5	1.4
Slovakia	3.5	2.5	1.4
Lithuania	3.5	2.5	1.4
Poland	3.5	2.5	1.4
Estonia	3.5	2.5	1.4
Latvia	3.5	2.5	1.4
Bulgaria	3.5	2.5	1.4
Romania	3.5	2.5	1.4

Notes: Convergence + Regional competitiveness funds only.

Source: Richter (2005: 77).

Table 3
The share of 'old' member states in Cohesion expenditures in various scenarios
(% of total)

Under the condition, that in % of their GDP the new member states receive:	Scenario 1A and 2B	Scenario 1B	Scenario 2A
All new members receive 4%	36	8	–
Cyprus and Slovenia 3%; all other new members 4%	37	10	–
Cyprus and Slovenia 2%; the Czech R. and Malta 3%, all other new members 4%	41	15	–

Notes: Convergence + Regional competitiveness funds only.

Source: Richter (2005: 77).

50:50 split between 'old' and 'new' members, we can estimate the amounts remaining for 'old' member states in the individual scenarios. Figures in *Table 3* show that if all 'new' members were to receive 4% of their GDP from *Cohesion*, not even Scenario 1A and 2B would ensure that half of the funds are allocated to old member states. In Scenario 1B about 8% would remain for that group, in Scenario 2A nothing. With a somewhat fuzzier focus, where only those 'new' members with per capita GNI below 75% of the EU-27 average would receive 4% of their GDP, the share of *Cohesion* expenditures allocated to 'old' members would be somewhat higher.

The net financial positions

It is very difficult to foresee the net financial balances of the member states in the period 2007–2013. First, the net positions in the past three years of the current financial perspective (2004–2006) are not illustrative as the phasing-in of Structural Policy transfers for the 'new' members shows the related costs to be lower now than they are likely to be from 2007 onwards. Secondly, Bulgaria and Romania will probably accede in either 2007 or the year after, thus increasing the claims on transfers still further. Whereas the financial consequences of the 2002 agreement on direct payments for farmers and market intervention are clear and can be anticipated, other important headings and sub-headings are subject to negotiation. For sub-heading 1b *Cohesion* an adapted version of the currently applied 'Berlin allocation method' will be used.²¹ The manner in which the current method should be changed is a subject of discussion.

²¹ The Berlin method is an algorithm used to calculate commitment appropriations for individual member states, taking into consideration the population of the eligible regions, regional pros-

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

‘A number of delegations emphasised the importance of providing fair access to the various programmes envisaged in order to ensure a balanced distribution between all Member States of benefits accruing from EU expenditure; it was pointed out in this connection that action under this Heading should contribute to narrowing the development gap between Member States and to a greater integration in the enlarged Union. Most delegations, for their part, pointed to the importance of the criterion of excellence as regards access to programmes.’ (Council of the European Union 2004b: 8).

The concern over the balance of allocations across member states may be well founded, as revealed by the projected structure of expenditure under sub-heading 1a *Competitiveness*. About half of the related funds are to be committed to R&D. Currently some 70% of the support for R&D from the EU budget is absorbed by five member states. If those proportions in allocations across member states were to be retained, the new member states would enjoy only marginal access to those resources.²²

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

In order to master the situation, the Commission proposes the introduction of a General Correction Mechanism (GCM) to address the problem of individual member states possibly running up excessive deficits. The GCM has two basic elements: (a) a threshold expressed as a share of each member state’s GNI; and (b) a compensation mechanism. In the first instance, should a member state record a negative net financial position above that threshold, the corrective mechanism is triggered off. In the second instance, the compensation mechanism shows what

perity, national prosperity and unemployment in the eligible regions. For details see Article 7 of Regulation 1260/1999 (Council of the European Union 2004b: 30).

²² Certainly administrative prescriptions, e.g. preference for applications where participants from less developed member states are also involved, may modify the final outcome of the allocation.

share of the deficit above the threshold should be (partially) reimbursed to the member state concerned. Finally, a ceiling is set for the total sum of reimbursements; when this sum is surpassed, the threshold is raised so that the corrective mechanism is only triggered when a higher deficit is incurred. The Commission proposes a threshold equivalent to 0.35% of the GNI; it would have the same impact on net balances as the UK rebate has today. The proposed reimbursement rate is 66%, the maximum refund being EUR 75 billion. All member states would participate in financing the corrections (Council of the European Union 2004b: 86). It is an open question whether these conditions will satisfy the major payers. Most probably they will not, whereupon they will necessitate the introduction of a cap on the maximum negative financial position. It must be borne in mind that the governments concerned have to defend their positions in their national legislative bodies. It is hard to imagine that countries struggling to satisfy the Stability and Growth Pact requirements as they relate to their national budgetary balances will be ready on their home fronts to propose a negative net position *vis-à-vis* the EU in the order of 0.5% of their GNI.

In *Table 4* the Commission's estimates of the net budgetary balances of the EU-25 are shown at different hypothetical thresholds ranging from zero to -0.5% of a member state's GNI. As already mentioned, the Commission proposes a threshold of -0.35% of the GNI. This rate must have already been adjusted to the planned allocation of budgetary expenditures, even if Bulgaria and Romania are not yet part of the calculation. Nevertheless, we can take these figures as a data set fairly close to the one that might be calculated for the member states' net position in Scenario 1A.

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

Table 4
Estimated net budgetary balances for all member states (annual averages 2008–2013) (% of GNI)

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

Source: European Commission (2004: 37 and 71).

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

What can we know about the net positions in scenario 1B? Here the ‘lawn-mower’ method is applied to cut expenditures, i.e. everything is cut proportionally, except for direct payments and market intervention and administration. Unchanged administration expenditures would further increase the net surplus of Luxembourg and Belgium, while unchanged agricultural expenditures would affect old and new members in widely different ways. Countries where this channel of transfers is relatively important would enjoy a more advantageous position favouring the new members Hungary, Lithuania and Poland.

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

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

Table 4 presents emerging net financial positions at various threshold rates that trigger the correction mechanism, should the Commission’s proposal be approved (N.B. for the EU-25). Apart from the key estimate of the -0.35% threshold, the most interesting figures are those in the first column of the table; they show the net financial balances that would emerge, were no correction mechanism to be applied, i.e. even without the correction currently applied (UK rebate). In that case, the net beneficiaries would enjoy a marginally better position than they would, if the correction mechanism were applied. Differences can be seen among the net payers. Most ‘major’ net payers (UK, Sweden, the Netherlands and Germany) would come off worse without the correction mechanism.²³ However, the position of Austria would be better in the absence of a correction mechanism. Two large member states (albeit not ‘major’ net payers), France and Italy, would see their net positions deteriorate, if the correction mechanism were applied. Other member states (‘moderate’ net payers) would also suffer upon the introduction of the general correction mechanism.

CONCLUDING REMARKS

Reducing the extent of the EU budget by about a fifth bears serious implications. Even if the ‘lawnmower’ method is used to cut expenditures in equal proportions, either the new members receive far fewer resources than the cohesion countries

²³ The UK would come off best if the current ‘UK correction’ were maintained.

received in the pre-enlargement EU, or the less developed or otherwise problematic regions in the old member states forgo nearly all support. Furthermore, ambitious plans to accelerate modernisation so as to attain the Lisbon targets will have to be downsized, as well. As the radical reform scenarios 'More competitiveness' and 'More cohesion' show, a resolute step to promote the provision of public goods EU-wide or accelerate the catching-up process of the new member states with a budget one fifth smaller than the Commission's proposal would in the ultimate analysis put an end to funding in the non-preferred areas. With a 1% EU GNI budget, more competitiveness would mean no cohesion, while more cohesion would mean no competitiveness.

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

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

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ANNEX*

Table A1

Scenario 1A: Commission's proposal

Expenditures in EUR million	2006	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth								
1a Competitiveness	8791	12105	14390	16680	18966	21250	23540	25825
Education & Training	650	950	1250	1550	1850	2150	2450	2750
R&D	5256	6325	7525	8750	9950	11175	12375	13600
Transport, Energy and Telecom networks	1175	1675	2200	2725	3250	3775	4275	4800
Growth Adjustment Fund		1000	1000	1000	1000	1000	1000	1000
Internal market, social policy, administration, etc.	1711	2155	2414	2655	2916	3151	3439	3675
1b Cohesion	38791	47569	48405	49120	49269	49410	50175	50960
Convergence incl. statistical 'phasing out'	28608	34723	36039	37249	37947	38657	39355	40074
Regional competitiveness incl. 'natural' phasing out	6989	9818	9241	8641	8027	7396	7391	7385
European territorial co-operation	1975	1791	1888	1989	2050	2111	2177	2245
EU Solidarity Fund	961	942	924	906	888	871	853	837
Other (incl. sdministration, etc.)	259	295	314	335	357	376	399	419
2. Preservation and manage- ment of natural resources	56015	57180	57900	58115	57980	57849	57825	57805
Direct payments and market intervention in agriculture	43735	43500	43673	43354	43034	42714	42506	42293
Rural development	10544	11575	12050	12500	12600	12725	12850	12975
Fishery instrument	909	1025	1050	1075	1100	1100	1125	1125
Environment	254	275	300	325	350	375	400	425
Other (incl. sdministration, etc.)	573	804	827	862	897	934	944	987
3. Citizenship, freedom, security & justice	1381	1630	2015	2330	2645	2970	3295	3620
Fundamental rights, migration, fight against crime, etc.	479	625	850	1025	1200	1375	1550	1725
Public health, consumer prot., culture, citizenship, adm., etc.	901	1004	1165	1304	1445	1595	1745	1895

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

Table A1 (cont.)

Expenditures in EUR million	2006	2007	2008	2009	2010	2011	2012	2013
4. External policies: The EU as a global partner	11232	11400	12175	12945	13720	14495	15115	15740
The EU and its neighbourhood	4095	3325	3625	3875	4225	4500	4600	4800
The EU as a sustainable development partner (incl. EDF)	4849	4850	5200	5625	5950	6350	6575	6850
The EU as a global player	710	1575	1625	1675	1700	1750	1950	2020
Loan guarantee and emergency aid reserves	442	442	442	442	442	442	442	440
Other (incl. admin.)	1136	1208	1283	1328	1403	1453	1548	1630
5. Administration	3436	3675	3815	3950	4090	4225	4365	4500
Compensation	1041							
TOTAL (Commitment appropriations)	120688	133560	138700	143140	146670	150200	154315	158450
Expenditures as % of total								
1. Sustainable growth								
1a Competitiveness	7.3	9.1	10.4	11.7	12.9	14.1	15.3	16.3
Education & Training	0.5	0.7	0.9	1.1	1.3	1.4	1.6	1.7
R&D	4.4	4.7	5.4	6.1	6.8	7.4	8.0	8.6
Transport, Energy and Telecom networks	1.0	1.3	1.6	1.9	2.2	2.5	2.8	3.0
Growth Adjustment Fund	0.0	0.7	0.7	0.7	0.7	0.7	0.6	0.6
Internal market, social policy, administration, etc.	1.4	1.6	1.7	1.9	2.0	2.1	2.2	2.3
1b Cohesion	32.1	35.6	34.9	34.3	33.6	32.9	32.5	32.2
Convergence incl. statistical 'phasing out'	23.7	26.0	26.0	26.0	25.9	25.7	25.5	25.3
Regional competitiveness incl. 'natural' phasing out	5.8	7.4	6.7	6.0	5.5	4.9	4.8	4.7
European territorial co-operation	1.6	1.3	1.4	1.4	1.4	1.4	1.4	1.4
EU Solidarity Fund	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.5
Other (incl. administration, etc.)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
2. Preservation and management of natural resources	46.4	42.8	41.7	40.6	39.5	38.5	37.5	36.5
Direct payments and market intervention in agriculture	36.2	32.6	31.5	30.3	29.3	28.4	27.5	26.7
Rural development	8.7	8.7	8.7	8.7	8.6	8.5	8.3	8.2
Fishery instrument	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Environment	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Other (incl. administration, etc.)	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6

Table A1 (cont.)

3. Citizenship, freedom, security & justice	1.1	1.2	1.5	1.6	1.8	2.0	2.1	2.3
Fundamental rights, migration, fight against crime, etc.	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1
Public health, consumer prot., culture, citizenship, adm., etc.	0.7	0.8	0.8	0.9	1.0	1.1	1.1	1.2
4. External policies: The EU as a global partner	9.3	8.5	8.8	9.0	9.4	9.7	9.8	9.9
The EU and its neighbourhood	3.4	2.5	2.6	2.7	2.9	3.0	3.0	3.0
The EU as a sustainable develop- ment partner (incl. EDF)	4.0	3.6	3.7	3.9	4.1	4.2	4.3	4.3
The EU as a global player	0.6	1.2	1.2	1.2	1.2	1.2	1.3	1.3
Loan guarantee and emergency aid reserves	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other (incl. admin.)	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
5. Administration	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Compensation	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL (Commitment appropriations)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table A2

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

EUR million, 2004 prices	2007	2008	2009	2010	2011	2012	2013
Items remaining as in the original							
Commission proposal	47175	47488	47304	47124	46939	46871	46793
of which:							
Direct payments and market inter- vention in agriculture	43500	43673	43354	43034	42714	42506	42293
Administration	3675	3815	3950	4090	4225	4365	4500
Key indicators for the scenario							
Original expenditures proposed by the Commission	133560	138700	143140	146670	150200	154315	158450
Total reduced expenditures (1% of EU GNI)	106193	110280	113810	116617	119423	122695	125983
Total reduced expenditures in % of total original expenditures	79.5	79.5	79.5	79.5	79.5	79.5	79.5
Original expenditures less items remaining unchanged (A)	86385	91212	95836	99546	103261	107444	111657
Reduced expenditures less items remaining unchanged (B)	59018	62792	66506	69493	72484	75824	79190
(B) as % of (A)	68.32	68.84	69.40	69.81	70.20	70.57	70.92
Coefficient for reduction	0.683	0.688	0.694	0.698	0.702	0.706	0.709
Expenditures in EUR million	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth							
1a Competitiveness	8270	9906	11575	13240	14916	16612	18316
Education & Training	649	861	1076	1291	1509	1729	1950
R&D	4321	5180	6072	6946	7844	8733	9645
Transport, Energy and Telecom networks	1144	1515	1891	2269	2650	3017	3404
Growth Adjustment Fund	683	688	694	698	702	706	709
Internal market, social policy, administration, etc.	1472	1662	1842	2036	2212	2427	2606
1b Cohesion	32499	33323	34087	34394	34683	35409	36142
Convergence incl. statistical 'phasing out'	23723	24810	25849	26491	27135	27773	28421
Regional competitiveness incl. 'natural' phasing out	6708	6362	5996	5604	5192	5216	5238
European territorial co-operation	1224	1300	1380	1431	1482	1536	1592
EU Solidarity Fund	644	636	629	620	611	602	594
Other (incl. administration, etc.)	202	216	232	249	264	282	297

Table A2 (cont.)

2. Preservation and management of natural resources	52845	53467	53598	53468	53337	53317	53294
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	7908	8295	8674	8796	8932	9068	9202
Fishery instrument	700	723	746	768	772	794	798
Environment	188	207	226	244	263	282	301
Other (incl. administration, etc.)	549	569	598	626	656	666	700
3. Citizenship, freedom, security & justice	1114	1387	1617	1846	2085	2325	2567
Fundamental rights, migration, fight against crime, etc.	427	585	711	838	965	1094	1223
Public health, consumer prot., culture, citizenship, adm., etc.	686	802	905	1009	1120	1231	1344
4. External policies: The EU as a global partner	7788	8381	8983	9578	10175	10667	11163
The EU and its neighbourhood	2272	2496	2689	2949	3159	3246	3404
The EU as a sustainable development partner (incl. EDF)	3313	3580	3903	4154	4457	4640	4858
The EU as a global player	1076	1119	1162	1187	1228	1376	1433
Loan guarantee and emergency aid reserves	302	304	307	309	310	312	312
Other (incl. admin.)	825	883	922	979	1020	1092	1156
5. Administration	3675	3815	3950	4090	4225	4365	4500
TOTAL (Commitment appropriations)	106191	110280	113811	116617	119422	122695	125983
Expenditures as % of total	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth							
1a Competitiveness	7.8	9.0	10.2	11.4	12.5	13.5	14.5
Education & Training	0.6	0.8	0.9	1.1	1.3	1.4	1.5
R&D	4.1	4.7	5.3	6.0	6.6	7.1	7.7
Transport, Energy and Telecom networks	1.1	1.4	1.7	1.9	2.2	2.5	2.7
Growth Adjustment Fund	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Internal market, social policy, administration, etc.	1.4	1.5	1.6	1.7	1.9	2.0	2.1
1b Cohesion	30.6	30.2	30.0	29.5	29.0	28.9	28.7
Convergence incl. statistical 'phasing out'	22.3	22.5	22.7	22.7	22.7	22.6	22.6
Regional competitiveness incl. 'natural' phasing out	6.3	5.8	5.3	4.8	4.3	4.3	4.2
European territorial co-operation	1.2	1.2	1.2	1.2	1.2	1.3	1.3
EU Solidarity Fund	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Other (incl. administration, etc.)	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Table A2 (cont.)

2. Preservation and management of natural resources	49.8	48.5	47.1	45.8	44.7	43.5	42.3
Direct payments and market intervention in agriculture	41.0	39.6	38.1	36.9	35.8	34.6	33.6
Rural development	7.4	7.5	7.6	7.5	7.5	7.4	7.3
Fishery instrument	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Environment	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other (incl. administration, etc.)	0.5	0.5	0.5	0.5	0.5	0.5	0.6
3. Citizenship, freedom, security & justice	1.0	1.3	1.4	1.6	1.7	1.9	2.0
Fundamental rights, migration, fight against crime, etc.	0.4	0.5	0.6	0.7	0.8	0.9	1.0
Public health, consumer prot., culture, citizenship, adm., etc.	0.6	0.7	0.8	0.9	0.9	1.0	1.1
4. External policies: The EU as a global partner	7.3	7.6	7.9	8.2	8.5	8.7	8.9
The EU and its neighbourhood	2.1	2.3	2.4	2.5	2.6	2.6	2.7
The EU as a sustainable development partner (incl. EDF)	3.1	3.2	3.4	3.6	3.7	3.8	3.9
The EU as a global player	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Loan guarantee and emergency aid reserves	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Other (incl. admin.)	0.8	0.8	0.8	0.8	0.9	0.9	0.9
5. Administration	3.5	3.5	3.5	3.5	3.5	3.6	3.6
TOTAL (Commitment appropriations)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table A3

Scenario 2A: More competitiveness

EUR million, 2004 prices	2007	2008	2009	2010	2011	2012	2013
Items remaining as in the original							
Commission proposal	85990	90295	94020	97401	100789	104140	107490
of which:							
1a Competitiveness	12105	14390	16680	18966	21250	23540	25825
Preservation and management of natural resources	57180	57900	58115	57980	57849	57825	57805
Citizenship, freedom, security & justice	1630	2015	2330	2645	2970	3295	3620
External policies: The EU as a global partner	11400	12175	12945	13720	14495	15115	15740
Administration	3675	3815	3950	4090	4225	4365	4500
Key indicators for the scenario							
Total original expenditures (Commission's proposal)	133560	138700	143140	146670	150200	154315	158450
Total reduced expenditures (1% of EU GNI)	106193	110280	113810	116617	119423	122695	125983
Total reduced expenditures in % of total original expenditures	79.5	79.5	79.5	79.5	79.5	79.5	79.5
Original expenditures less items remaining unchanged (A)	47570	48405	49120	49269	49411	50175	50960
Reduced expenditures less items remaining unchanged (B)	20203	19985	19790	19216	18634	18555	18493
(B) as % of (A)	42.5	41.3	40.3	39.0	37.7	37.0	36.3
Coefficient for reduction	0.425	0.413	0.403	0.390	0.377	0.370	0.363

Expenditures in EUR million**1. Sustainable growth**

1a Competitiveness	12105	14390	16680	18966	21250	23540	25825
Education & Training	950	1250	1550	1850	2150	2450	2750
R&D	6325	7525	8750	9950	11175	12375	13600
Transport, Energy and Telecom networks	1675	2200	2725	3250	3775	4275	4800
Growth Adjustment Fund	1000	1000	1000	1000	1000	1000	1000
Internal market, social policy, administration, etc.	2155	2414	2655	2916	3151	3439	3675
1b Cohesion	20202	19985	19790	19216	18634	18555	18493
Convergence incl. statistical 'phasing out'	14747	14879	15007	14800	14579	14554	14542
Regional competitiveness incl. 'natural' phasing out	4170	3815	3481	3131	2789	2733	2680

Table A3 (cont.)

European territorial co-operation	761	779	801	800	796	805	815
EU Solidarity Fund	400	381	365	346	328	315	304
Other (incl. administration, etc.)	125	130	135	139	142	148	152
2. Preservation and management of natural resources	57180	57900	58115	57980	57849	57825	57805
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	11575	12050	12500	12600	12725	12850	12975
Fishery instrument	1025	1050	1075	1100	1100	1125	1125
Environment	275	300	325	350	375	400	425
Other (incl. administration, etc.)	804	827	862	897	934	944	987
3. Citizenship, freedom, security & justice	1630	2015	2330	2645	2970	3295	3620
Fundamental rights, migration, fight against crime, etc.	625	850	1025	1200	1375	1550	1725
Public health, consumer prot., culture, citizenship, adm., etc.	1004	1165	1304	1445	1595	1745	1895
4. External policies: The EU as a global partner	11400	12175	12945	13720	14495	15115	15740
The EU and its neighbourhood	3325	3625	3875	4225	4500	4600	4800
The EU as a sustainable development partner (incl. EDF)	4850	5200	5625	5950	6350	6575	6850
The EU as a global player	1575	1625	1675	1700	1750	1950	2020
Loan guarantee and emergency aid reserves	442	442	442	442	442	442	440
Other (incl. admin.)	1208	1283	1328	1403	1453	1548	1630
5. Administration	3675	3815	3950	4090	4225	4365	4500
TOTAL (Commitment appropriations)	106192	110280	113810	116617	119423	122695	125983
Expenditures as % of total							
1. Sustainable growth							
1a Competitiveness	11.4	13.0	14.7	16.3	17.8	19.2	20.5
Education & Training	0.9	1.1	1.4	1.6	1.8	2.0	2.2
R&D	6.0	6.8	7.7	8.5	9.4	10.1	10.8
Transport, Energy and Telecom networks	1.6	2.0	2.4	2.8	3.2	3.5	3.8
Growth Adjustment Fund	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Internal market, social policy, administration, etc.	2.0	2.2	2.3	2.5	2.6	2.8	2.9
1b Cohesion	19.0	18.1	17.4	16.5	15.6	15.1	14.7
Convergence incl. statistical 'phasing out'	13.9	13.5	13.2	12.7	12.2	11.9	11.5
Regional competitiveness incl. 'natural' phasing out	3.9	3.5	3.1	2.7	2.3	2.2	2.1

Table A3 (cont.)

European territorial co-operation	0.7	0.7	0.7	0.7	0.7	0.7	0.6
EU Solidarity Fund	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Other (incl. administration, etc.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
2. Preservation and management of natural resources	53.8	52.5	51.1	49.7	48.4	47.1	45.9
Direct payments and market intervention in agriculture	41.0	39.6	38.1	36.9	35.8	34.6	33.6
Rural development	10.9	10.9	11.0	10.8	10.7	10.5	10.3
Fishery instrument	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Environment	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other (incl. administration, etc.)	0.8	0.7	0.8	0.8	0.8	0.8	0.8
3. Citizenship, freedom, security & justice	1.5	1.8	2.0	2.3	2.5	2.7	2.9
Fundamental rights, migration, fight against crime, etc.	0.6	0.8	0.9	1.0	1.2	1.3	1.4
Public health, consumer prot., culture, citizenship, adm., etc.	0.9	1.1	1.1	1.2	1.3	1.4	1.5
4. External policies: The EU as a global partner	10.7	11.0	11.4	11.8	12.1	12.3	12.5
The EU and its neighbourhood	3.1	3.3	3.4	3.6	3.8	3.7	3.8
The EU as a sustainable development partner (incl. EDF)	4.6	4.7	4.9	5.1	5.3	5.4	5.4
The EU as a global player	1.5	1.5	1.5	1.5	1.5	1.6	1.6
Loan guarantee and emergency aid reserves	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Other (incl. admin.)	1.1	1.2	1.2	1.2	1.2	1.3	1.3
5. Administration	3.5	3.5	3.5	3.5	3.5	3.6	3.6
TOTAL (Commitment appropriations)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table A4

Scenario 2B: More cohesion

EUR million, 2004 prices	2007	2008	2009	2010	2011	2012	2013
Items remaining as in the original							
Commission proposal	106319	107943	108924	108993	109074	109896	110728
of which:							
1b Cohesion	47569	48405	49120	49269	49410	50175	50960
Direct payments and market inter- vention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	11575	12050	12500	12600	12725	12850	12975
Administration	3675	3815	3950	4090	4225	4365	4500
Administration reduced by EUR 126 million	3549						
Key indicators for the scenario							
Total original expenditures (Commission's proposal)	133560	138700	143140	146670	150200	154315	158450
Total reduced expenditures (1% of EU GNI)	106193	110280	113810	116617	119423	122695	125983
Total reduced expenditures in % of total original expenditures	79.5	79.5	79.5	79.5	79.5	79.5	79.5
Original expenditures less items remaining unchanged (A)	27241	30757	34216	37677	41126	44419	47722
Reduced expenditures less items remaining unchanged (B)	-126	2337	4886	7624	10349	12799	15255
(B) as % of (A)	...	7.60	14.28	20.23	25.16	28.81	31.97
Coefficient for reduction	...	0.076	0.143	0.202	0.252	0.288	0.320
Expenditures in EUR million	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth							
1a Competitiveness	0	1093	2382	3838	5348	6783	8255
Education & Training	0	95	221	374	541	706	879
R&D	0	572	1249	2013	2812	3566	4347
Transport, Energy and Telecom networks	0	167	389	658	950	1232	1534
Growth Adjustment Fund	0	76	143	202	252	288	320
Internal market, social policy, administration, etc.	0	183	379	590	793	991	1175
1b Cohesion	47569	48405	49120	49269	49410	50175	50960
Convergence incl. statistical 'phasing out'	34723	36039	37249	37947	38657	39355	40074
Regional competitiveness incl. 'natural' phasing out	9818	9241	8641	8027	7396	7391	7385
European territorial co-operation	1791	1888	1989	2050	2111	2177	2245
EU Solidarity Fund	942	924	906	888	871	853	837
Other (incl. administration, etc.)	295	314	335	357	376	399	419

Table A4 (cont.)

2. Preservation and management of natural resources	55075	55888	56177	56109	56045	56067	56079
Direct payments and market intervention in agriculture	43500	43673	43354	43034	42714	42506	42293
Rural development	11575	12050	12500	12600	12725	12850	12975
Fishery instrument	0	80	154	223	277	324	360
Environment	0	23	46	71	94	115	136
Other (incl. administration, etc.)	0	63	123	181	235	272	316
3. Citizenship, freedom, security & justice	0	153	333	535	747	949	1157
Fundamental rights, migration, fight against crime, etc.	0	65	146	243	346	447	551
Public health, consumer prot., culture, citizenship, adm., etc.	0	89	186	292	401	503	606
4. External policies: The EU as a global partner	0	925	1848	2776	3648	4355	5031
The EU and its neighbourhood	0	275	553	855	1132	1325	1534
The EU as a sustainable development partner (incl. EDF)	0	395	803	1204	1598	1895	2190
The EU as a global player	0	123	239	344	440	562	646
Loan guarantee and emergency aid reserves	0	34	63	89	111	127	141
Other (incl. admin.)	0	97	190	284	366	446	521
5. Administration	3549	3815	3950	4090	4225	4365	4500
TOTAL (Commitment appropriations)	106193	110280	113810	116617	119423	122695	125983
Expenditures as % of total	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth							
1a Competitiveness	0	1.0	2.1	3.3	4.5	5.5	6.6
Education & Training	0	0.1	0.2	0.3	0.5	0.6	0.7
R&D	0	0.5	1.1	1.7	2.4	2.9	3.5
Transport, Energy and Telecom networks	0	0.2	0.3	0.6	0.8	1.0	1.2
Growth Adjustment Fund	0	0.1	0.1	0.2	0.2	0.2	0.3
Internal market, social policy, administration, etc.	0	0.2	0.3	0.5	0.7	0.8	0.9
1b Cohesion	44.8	43.9	43.2	42.2	41.4	40.9	40.4
Convergence incl. statistical 'phasing out'	32.7	32.7	32.7	32.5	32.4	32.1	31.8
Regional competitiveness incl. 'natural' phasing out	9.2	8.4	7.6	6.9	6.2	6.0	5.9
European territorial co-operation	1.7	1.7	1.7	1.8	1.8	1.8	1.8
EU Solidarity Fund	0.9	0.8	0.8	0.8	0.7	0.7	0.7
Other (incl. administration, etc.)	0.3	0.3	0.3	0.3	0.3	0.3	0.3

Table A4 (cont.)

2. Preservation and management of natural resources	51.9	50.7	49.4	48.1	46.9	45.7	44.5
Direct payments and market intervention in agriculture	41.0	39.6	38.1	36.9	35.8	34.6	33.6
Rural development	10.9	10.9	11.0	10.8	10.7	10.5	10.3
Fishery instrument	0	0.1	0.1	0.2	0.2	0.3	0.3
Environment	0	0.0	0.0	0.1	0.1	0.1	0.1
Other (incl. administration, etc.)	0	0.1	0.1	0.2	0.2	0.2	0.3
3. Citizenship, freedom, security & justice	0	0.1	0.3	0.5	0.6	0.8	0.9
Fundamental rights, migration, fight against crime, etc.	0	0.1	0.1	0.2	0.3	0.4	0.4
Public health, consumer prot., culture, citizenship, adm., etc.	0	0.1	0.2	0.3	0.3	0.4	0.5
4. External policies: The EU as a global partner	0	0.8	1.6	2.4	3.1	3.5	4.0
The EU and its neighbourhood	0	0.2	0.5	0.7	0.9	1.1	1.2
The EU as a sustainable development partner (incl. EDF)	0	0.4	0.7	1.0	1.3	1.5	1.7
The EU as a global player	0	0.1	0.2	0.3	0.4	0.5	0.5
Loan guarantee and emergency aid reserves	0	0.0	0.1	0.1	0.1	0.1	0.1
Other (incl. admin.)	0	0.1	0.2	0.2	0.3	0.4	0.4
5. Administration	3.3	3.5	3.5	3.5	3.5	3.6	3.6
TOTAL (Commitment appropriations)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

