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Tamás Szemlér and Jonas Eriksson

The EU Budget Review:

Mapping the Positions of Member States

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Swedish Institute for European Policy Studies

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Edited by Tamás Szemlér and Jonas Eriksson

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PREFACE

On 12 September 2007 the European Commission launched a "broad consultation with interested parties at local, regional and national levels, as well as at the European level, to stimulate an open debate on EU finances". The Swedish Institute for European Policy Studies (SIEPS) has chosen to respond to the Commission's invitation by publishing reports that cover important issues related to the EU budget and by arranging seminars on the theme of the EU budget review. The present report is the first in a series of reports on the review that will be published in 2008 and 2009.

In December 2006 the Institute for World Economics of the Hungarian Academy of Sciences (IWE) was commissioned by SIEPS to map the interests of the EU Member States and their positions with regard to the EU budget in order to analyse both the prospects for reform, as well as the possible content of such a reform, during the budget review 2008/2009. To this end the study employs a twin-track approach. First, a survey was carried out, where questionnaires were sent to policy-makers and researchers throughout the EU. Second, a number of budget researchers were asked to analyse the likely positions of a number of Member States. However, as it was not possible to cover all 27 Member States, it is assumed in the study that the interests of the eight countries selected represent a good approximation to the interests and positions of similar Member States. One of the main conclusions in the report is that a number of reforms may take place but that, at the same time, a far-reaching reform should not be expected, at least not in the short to medium-term perspective.

SIEPS conducts and promotes research and analysis of European policy issues within the disciplines of political science, law and economics. SIEPS strives to act as a link between the academic world and policy-makers at various levels.

Jörgen Hettne
Acting Director, SIEPS

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LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
CDU	Christian Democratic Union
CFCA	Community Fisheries Control Agency
CFSP	Common Foreign and Security Policy
EAGGF	European Agricultural Guidance and Guarantee Fund
ECSA	European Community Studies Association
EDA	European Defence Agency
EIT	European Institute of Technology
EMSA	European Maritime Safety Agency
ERDF	European Regional Development Fund
ERM	Exchange rate mechanism
ESA	European Space Agency
ESF	European Social Fund
EU10	Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithania, Malta, Poland, Slovakia and Slovenia
EU12	EU10, Bulgaria and Romania
EU15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK
EUROPOL	European Police Office
FDP	Free Democratic Party
GCM	Generalised correction mechanism
GDP	Gross domestic product
GNI	Gross national income
ICTs	Information and communication technologies
IFRI	Institut français des relations internationales
MIT	Massachusetts Institute of Technology
MP	Member of Parliament
R&D	Research and development
SPD	Social Democratic Party
TENs	Trans-European networks
VAT	Value added tax

SVENSK SAMMANFATTNING

Europeiska kommissionen startade den 12 september 2007 ett “offentligt samråd” genom att publicera meddelandet “Budgetreform för ett Europa i förändring”. Meddelandet sammanfattar kort EU:s budgethistoria och fäster uppmärksamheten på ett antal nyckelfrågor angående budgetens framtida utveckling; både i generella termer och avseende budgetens intäkts- och utgiftssidor. Kommissionens ansats är att vara “öppen för alla synpunkter… [och] … förbereda översynen utan några förutfattade meningar och uppmanar alla intresserade parter att delta i samrådet” (European Commission 2007a, s. 3).

I linje med denna ansats har vi i rapporten försökt att kartlägga medlemsstaternas intressen och positioner när det gäller formandet av EU:s framtida budget. Den empiriska delen av rapporten består av två element:

1. En enkät skickades till olika kategorier av respondenter: budgetexperter/forskare; aktörer i beslutsprocessen (både på den nationella och på EU-nivån); samt andra respondenter (exempelvis tjänstemän, före detta nationella och EU-ämbetsmän, finansiella experter och ekonomijournalister). Enkäten skickades ut till samtliga 27 EU-länder och resulterade i 167 svar från sammanlagt 23 medlemsstater. Även om detta urval inte är statistiskt representativt – givet att antalet svar är förhållandevis begränsat och att svarsfrekvensen från de respektive medlemsländerna inte motsvarar deras respektive befolkningsstorlek – ger svaren ändå värdefull information, eftersom svaren kommer från aktörer som är djupt involverade i EU:s budgetprocess. Vi vill dock påpeka att resultaten bör tolkas med försiktighet och att det inte är möjligt att dra långtgående slutsatser baserat på enkäten.
2. De statistiska problemen har delvis lösts i den andra delen av det empiriska arbetet, där budgetexperter har analyserat åtta medlemsstaters positioner och intressen i EU-budgetfrågor. Resultaten från denna analys bekräftar i stort resultaten från enkätundersökningen. De åtta länder som har valts ut är Bulgarien, Frankrike, Polen, Spanien, Storbritannien, Sverige, Tyskland och Ungern, och deras plats i analysen har motiverats med att de till stor del kan sägas representera intressen i resterande medlemsstater.

Med utgångspunkt i resultaten från dessa undersökningar kan vi dra ett antal preliminära slutsatser:

1. Historiska budgetkonflikter kommer även fortsättningsvis att spela en stor roll. Det är i sig inte förvånande, men det är värt att betona efter-

som det uttryckliga målet med budgetöversynen är att reflektera över EU-budgetens framtid på längre sikt och därmed distansera sig från gamla eller dagsaktuella konflikter. Även om en ansenlig del av svaren på vår enkät betonar vikten av ett långsiktigt perspektiv, avslöjar svaren på de mer detaljerade frågorna att medlemsstaterna fortfarande är bundna vid kortsiktiga och mestadels nationella intressen, delvis relaterade till fenomenet *juste retour*. Därtill divergerar positionerna i flera fall: exempelvis anser vissa medlemsstater att det är viktigt att reducera deras nettobidrag *till* budgeten, medan andra betonar vikten av att maximera deras nettobidrag *från* budgeten. Vidare är det avgörande för en del medlemsstater att de inte drabbas finansiellt av nästa utvidgningsrunda. Av detta kan vi dra slutsatsen att gamla diskussioner sannolikt åter kommer upp på dagordningen; om inte under översynen så åtminstone när det är dags att förhandla nästa budgetplan som startar 2014.

2. De flesta medlemsstater betonar fortfarande vikten av deras nettobetalningspositioner. En långsiktig förändring kan inte uteslutas, men att EU:s politiska ledare kommer att avvika från *juste retour* i en nära framtid är högst osannolikt. Även om översynen innebär ett gynnsamt tillfälle att åtminstone försöka att lyfta blicken bortom den nära framtiden, ska vi inte ha alltför höga förväntningar på konkreta resultat; i synnerhet med tanke på att resultaten av översynen inte kommer att vara bindande och att förhandlingarna om nästa budgetplan – där medlemsstaterna kommer att ha mycket konkreta intressen – kommer allt närmare.

3. Grundläggande ändringar av EU:s så kallade “egna medel” (budgetens intäktssida) verkar vara mycket svåra att åstadkomma. Även om det inte ska uteslutas att en övergång till ett system med en eller flera EU-skatter kan vara möjlig på lång sikt, visar enkäten att känslorna mot ett sådant steg är ganska starka, till och med när tidshorisonten är mer än 20 år. Däremot kan vissa förändringar vara inom räckhåll på både kort- och medellång sikt. Framför allt tycks debatten om den brittiska rabatten ha nått en viss mognad, då nästan alla som ingår i undersökningen förväntar sig en förändring. I synnerhet finns förväntningar om reform av den gemensamma jordbrukspolitiken och detta är ett förhållandevis nytt element. Därmed är ett brittiskt veto inte lika överhängande.

4. Det finns goda chanser att åstadkomma betydande skiften i budgetens utgiftssida. De viktigaste frågorna kan summeras enligt följande:

   a. En reform av den gemensamma jordbrukspolitiken är enligt samtliga länderstudier mer eller mindre tagen för given. Även om detaljerna i denna reform kommer att vara skäl för diskussioner tycks viktiga förändringar oundvikliga. Det som är nytt i sammanhanget är att både traditionella CAP-kritiker och nettostödmottagare förespråkar reform. På principnivån (den nivå som har valts för översynen) verkar det därför vara förhållandevis okomplicerat att nå en framgångsrik uppgörelse. Däremot lär det bli mycket svårare att nå framgång när medlemsstaterna ska gå in på detaljer och en eventuell överenskommelse ska uttryckas i siffror. Samtidigt kan en överenskommelse på principnivå naturligtvis göra en hel del för att bringa en överenskommelse på detaljnivå inom räckhåll.

b. Det finns också ett reformtryck när det gäller EU:s sammanhållningspolitik och det verkar därför vara möjligt att genomföra viktiga förändringar. Återigen är det sannolikt mycket lättare att nå överenskommelser avseende principer än detaljer, men länderstudierna visar att de största stödmottagarna kommer att fästa allt mindre vikt vid detaljerna och detta av två skäl: för det första förväntas de ha kommit mycket närmare de rikare medlemsstaterna i termer av BNP per capita mot slutet av nästa budgetplan och för det andra är de i högsta grad medvetna om de finansiella effekterna av Turkiets – och kanske också Ukrainas – anslutning till unionen.

c. Att förstärka rubrik 1a ("Konkurrenskraft för tillväxt och sysselsättning") i EU:s budget tycks vara en prioritering för samtliga medlemsstater och ingen riktig debatt är att vänta avseende legitimiteten för denna utgift. Nyckelfrågan är vilken roll budgeten ska spela och här förekommer däremot skillnader i medlemsstaternas positioner. Detta är i sig inte särskilt överraskande, men vi kunde inte identifiera någon huvudsaklig opponent mot en förstärkning av denna utgift i EU:s budget.

d. Idéer om nya utgifter förekommer och konvergerar till och med. Det finns en stor risk att *status quo*–tänkandet kommer att dominera i de mer detaljerade diskussionerna – i synnerhet under förhandlingarna om nästa budgetplan – men åsiktskonvergensen väcker vissa förhoppningar inför budgetöversynen 2008/2009. Det återstår att se om och hur mycket av resultaten som kan omsättas i reella förändringar redan från 2014, men även om nästa budgetplan inte påverkas av budgetöversynen så kvarstår möjligheten att budgetöversynen som sådan kan verka som katalysator för en mer långsiktig förändring.

5. De flesta respondenter anser inte att fördragsmässiga åtaganden som innebär kostnader för medlemsstaterna automatiskt ska leda till finansiering via EU:s budget. Additionalitet, subsidiaritet och proportionalitet anses således vara viktiga värden. Det här är inte bara en viktig insikt i

det långsiktiga perspektivet, det har i ljuset av Lissabonfördraget också betydelse på kort sikt.

6. Det finns ingen generell skiljelinje mellan "gamla" EU15[1] och "nya" EU12[2] och det här är ett viktigt resultat från studien. Däremot kan skillnader förekomma på kort sikt på grund av att utvecklingsnivåerna fortfarande skiljer sig och detta är särskilt viktigt för sammanhållningspolitiken. Utöver detta bör två saker understrykas:
   a. Bortom deras intressen att på kort till medellång sikt komma ikapp rikare länder ekonomiskt vill de senast anslutna medlemsstaterna framför allt vara del av ett starkt EU. Dessutom är de, som redan har nämnts, medvetna om de potentiella konsekvenserna av ytterligare EU-utvidgningar. De är därför öppna för reformer på lång sikt och detta är helt i linje med det mål om långsiktighet som är tänkt att genomsyra budgetöversynen. Det är i sammanhanget intressant att notera att gamla nettomottagare från strukturfonderna tycks vara mer oroade över den framtida sammanhållningspolitiken. En förklaring till detta skulle kunna vara att de redan har erfarenhet av konsekvenserna av en EU-utvidgning som innefattar fattigare regioner.
   b. EU15 och EU12 är inte att betrakta som homogena grupper och några koalitioner kan därför inte väntas uppstå. Detta har varit ett välkänt faktum i EU15 men det gäller alltså i lika hög grad i EU12. Det finns flera exempel där vissa länder inom EU12 på en rad områden har intressen som stämmer bättre överens med intressen i länder inom EU15 än med länder ur "deras egen" grupp. Det bästa exemplet är kanske Slovenien, men i takt med att skillnader i ekonomisk utveckling och struktur krymper kommer ytterligare länder med stor sannolikhet att sälla sig till denna kategori. Detta gäller särskilt i vissa sektorer och politikområden.

6. I vissa nyckelfrågor finns ett avsevärt gap mellan forskare och aktörer i beslutsprocessen. Skillnaderna är särskilt tydliga när det gäller synen på budgetens optimala storlek, där forskarna överlag vill se en större budget. Det är kanske inte överraskande, så till vida att det kan bero på skillnader i kort- respektive långsiktigt tänkande, men det är önskvärt att det långsiktiga tänkandet i högre grad äntrar sinnena också hos beslutsaktörerna om översynen verkligen ska bli en framgång.

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[1] Belgien, Danmark, Finland, Frankrike, Grekland, Irland, Italien, Luxemburg, Nederländerna, Portugal, Spanien, Storbritannien, Sverige, Tyskland och Österrike.

[2] Bulgarien, Cypern, Estland, Lettland, Litauen, Malta, Polen, Rumänien, Slovakien, Slovenien, Tjeckien och Ungern.

Med hänsyn tagen till allt som har sagts ovan är det fullt möjligt att tro att EU:s ledare kan nå en överenskommelse om en mer modern budget som tjänar sant Europeiska intressen och det är också möjligt att de kan mildra *juste retour*-tänkandet. Det är däremot av yttersta vikt att de distanserar sig från *status quo* om budgetöversynen verkligen ska bli ett gyllene tillfälle att nå verkliga resultat – snarare än en rutinmässig övning i ny skrud. Om budgetöversynen ska leda till ett genombrott måste europeiska politiker vara öppna för nya ansatser och lösningar.

EXECUTIVE SUMMARY

The European Commission launched a "public consultation" on the future of the EU budget through the publication of a Communication on 12 September 2007. The Communication serves as an introduction for the citizens to the issues at stake: it provides a brief overview of the history of the EU's budget and calls attention to a number of key questions regarding the future development of general issues, revenue and expenditure. The Commission's approach – as declared in the public consultation paper – will be "one of openness and no taboos: it will prepare this review with no preconceptions and encourages all interested parties to contribute to the consultation" (European Commission 2007a, p. 3).

In line with this approach, the authors of the present report have tried to map Member State interests and expert positions regarding the future shape of the EU budget. The empirical part of the research consists of two main elements:

1. A questionnaire was sent to different categories of respondents: researchers; policy-makers active in their country of origin; policy-makers representing their countries of origin in an EU institution; policy-makers active in an EU institution; and other respondents, including civil servants, former national and EU officials, financial experts and financial journalists. The questionnaire was sent to respondents throughout the EU and the result was 167 responses from 23 Member States. Although our sample is far from representative in the strictest statistical sense, since the sample size is limited and the countries/country groups are not equally represented in the responses, it still contains valuable information. Above all, the questions have been answered by specialists who are actively involved in the budget review. However, in view of the reasons stated above, one has to be careful not to draw too far-reaching conclusions from this survey.

2. The statistical problem is partly solved by the second element of our empirical work: survey results are complemented and in most cases supported by the findings of a set of country papers. The country papers have been prepared on the expected positions of eight EU Member States: Bulgaria, France, Germany, Hungary, Poland, Spain, Sweden and the UK. The aim has been to provide detailed information on the preferences of these countries, as they have been considered to represent interests similar to other Member States concerning fundamental questions to be faced during the budget review.

The results from the questionnaires and the country papers provide information that allow us to draw some preliminary conclusions:

1. Old sources of budgetary conflicts remain important. This is not surprising, but it is worth emphasising, since the explicit objective of the budget review was to reflect on the long-term future of the EU budget, going beyond old conflicts. While an important part of the answers to our questionnaire referred to this need and all country papers mentioned it as a fundamental objective, details revealed a strong commitment in most cases to short-sighted country interests at least partly based on *juste retour*. These interests are still diverging in many cases. For example, for some Member States the reduction of net payments is important, while for others maximising their transfers from the Structural and Cohesion Policy is the priority. For others still it is essential that they are not hit financially by the next round of EU enlargements. Hence, old debates will probably continue: if not during the review, then at the latest during the discussions on the post-2013 Financial Framework.

2. The net position is still at the very centre of thinking in most Member States. A change in the long run *is* conceivable but a departure from *juste retour* seems highly unlikely in the near future. Having said that, the review is an eminent occasion for having a go at it but one should be cautious about expectations regarding tangible results. This is especially true in the light of the fact that the results of the review will not be binding in any way and the beginning of the preparations for the next Financial Framework – in which all participants have very tangible interests – draw nearer.

3. Fundamental changes to the own resources system seem to be difficult to achieve. While it should not be ruled out that a change from the current to a new system funded by one or several EU taxes is possible in the long run, the survey shows that feelings against such a change are quite strong even with a horizon of more than 20 years. However, major changes are conceivable in the short to medium-term perspective: the debate on the UK rebate seems to have reached a degree of maturity, as important changes are expected by almost everyone. Moreover, the really new element is the fact that the reform of the Common Agricultural Policy (henceforth CAP) is in the air and thus a UK veto is not a given outcome.

4. Considerable shifts on the expenditure side have good chances. The main issues in this respect can be summarised as follows:

a. First of all, the future reform of the CAP is taken for granted by most respondents and in all country studies. Although there are ongoing discussions about the directions and modalities of the reform, important changes seem to be inevitable. The new element here is that reform is not only promoted by the traditional CAP opponents but also seen as inevitable by some of the most important beneficiaries of the current system. On the level of principles (and this is the level chosen for the review), the agreement does not seem to be too difficult to achieve. As the devil is in the detail, specific agreements expressed in figures from 2014 will be harder to reach. However, should there be a successful solution of – and linkage to – the rebates issue, the details will likely follow.
b. Cohesion Policy is also under pressure and important changes are more than likely. Again, principles are relatively easy to agree upon, despite important differences in interests and arguments, while concrete figures can cause more problems. However, the country papers show that for the main present beneficiaries of these policies the figures will be less important in the long run (i.e. beyond the next Financial Framework). This is due to two factors: first, by the end of the next Financial Framework, current beneficiaries of Cohesion Policy expect to have caught up with the richer Member States; and second, the effects on their position from further enlargements – especially Turkish and perhaps also Ukrainian accession – are well-known to them.
c. The reinforcement of the competitiveness objective can be seen as a priority for everyone. No real debate is expected about the legitimacy of this heading. The key issue to be discussed is the role of the EU budget. The Member States' positions are different, which should come as a surprise to no one but we identified no principal opponent to the further enhancement of this objective.
d. Ideas on new expenditure items are present and even converging but regarding the discussion on the specifics of the expenditure side, most actors' thoughts will probably be based on the status quo. Having said this, the *status quo* will most likely dominate the negotiations on the next Financial Framework, while the convergence on new ideas is encouraging for the 2008/2009 review. It remains to be seen whether and how much of the results from the review can be implemented from 2014. However, even if the next Financial Framework is unaffected by the review process, the possibility of changes occurring in the long run is still there.

5. For most respondents of our questionnaire, Treaty obligations with regard to a given issue do not automatically imply presence of that issue in the expenditure side of the EU budget. Additionality, subsidiarity and proportionality are thus important values. This is not only an important insight for the long-run perspective; it is in the light of the Lisbon Treaty also to have significance in the short-run.

6. There is no general division line between old and new Member States. This is a very important finding of our survey. Having said this, due to their relative development levels the short-term interests of old and new Member States can differ, which is especially the case with regard to Cohesion Policy, but there are two issues that need to be underlined:
   a. Beyond their short or mid-term interest in economic catching-up, new Member States recognise the importance of being part of a strong EU. Additionally, as has already been mentioned, they are also aware of the potential consequences of further enlargements and they are therefore open for reforms in the long-run. This is in line with the objectives of the review. Quite interestingly, the previous main beneficiaries seem to be more worried about the future of the Cohesion Policy. Their concern is in particular a result of further enlargements and this may be a way of defending their interests based on their experiences from recent enlargements.
   b. Groups of old and new Member States are not homogeneous and therefore no general coalitions may be expected. This has already been a well-known fact among the old EU15[3] countries but it should be made clear that the same applies for the new EU12.[4] There are already countries in the EU12 whose interests, in a number of areas, coincide more with members of the EU15 than with members of what could be seen as "their own" group. The best example is perhaps that of Slovenia but when differences in economic development, structure and policy choices are reduced further as a consequence of the catching up, the number of similar cases will increase – especially in sector or policy-specific issues.

7. In some key issues there is a considerable gap between the ideas of researchers and policy-makers. The differences were most visible as to the opinions on the optimal size of the EU budget. This is perhaps not surprising as it may indicate a division between a focus on more short-term

[3] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK.

[4] Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

problems of “Agenda 2014” and the more long-term objectives of the budget review. Differences therefore are natural, but in order to have a chance to have a successful review, the long-term approach should also be more present in the thinking of policy-makers.

Bearing all this in mind it is neither overly optimistic to think that an agreement can be reached on a more modern EU budget that serves European interests, nor is it wishful thinking to say that it is possible to do away with *juste retour*. However, it is crucial to keep a distance from the *status quo* if the budget review is really meant to be a golden opportunity and not just a routine exercise in a new, fashionable form. In order to have a chance to achieve a breakthrough during the review, European policy-makers should really be open to new approaches and solutions.

1 INTRODUCTION

Tamás Szemlér

The EU[5] budget is one of the most discussed areas of European integration. Whenever important decisions are at stake the debate attracts the attention not only of professionals but also of the broader public. Just a few years after the introduction of the system of own resources conflicts related to the EU budget emerged between institutions and Member States. These conflicts were mostly related to the budgetary positions of the Member States (net payers or net receivers). The budgetary positions were a result of the way the system of own resources functions as well as the method of distribution according to the expenditure headings; first of all with regard to agriculture, but gradually and increasingly also to structural operations. The conflicts have been aggravated by the higher financial needs since the integration process from the 1980s and onwards has both widened and deepened.

The reactions to these challenges – the Delors packages – proved to be successful instruments and implied substantial reform to the EU's finances. However, the above conflicts – together with conflicts between EU institutions (mainly between the Council and the European Parliament) – are still present today. A new dimension has been added to this, first with the perspective of Eastern enlargement, and, second, with the actual enlargements in 2004 and 2007. The EU responded to the new challenges with Agenda 2000 (and the adoption of the 2000-2006 Financial Framework on the basis of that document in 1999), and in 2005, with the agreement reached (and in some details slightly modified by the European Parliament in 2006) at the Brussels European Council on the 2007-2013 Financial Framework.

If one examines the four mentioned mid-term packages (Financial Frameworks), the tendency is clear: in 1988 a new system was born, which was then modified on several occasions and today we have arrived at a point where the system is difficult to penetrate because of the jungle of modifications. With earlier adjustments the EU took some pains to present them as a consequence of a general feature (e.g. transfers to sparsely populated areas); but in the 2007-2013 Financial Framework even this approach is absent in many cases and the ad hoc solutions make the once well-functioning system look more like an "organised chaos" (for details on this issue, see e.g. Szemlér 2006).

[5] Even though the paper in some cases deals with events related to the EC (before the creation of the EU), for the reason of simplicity, we use the terms "EU" and "EU budget" throughout the paper.

However, the agreement had two fundamental merits. First, it helped to avoid a deep and long-lasting crisis for the European integration process on the budget question. Looking back at the year 2005 it was arguably more important than ever. Second – which is even more relevant from the point of view of our present reflection – it gave the EU valuable time to consider future options. The budget review in 2008/2009, which was also decided at the Brussels European Council in December 2005, and agreed by the European Parliament, the Council and the Commission in May 2006, invited the Commission "to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9" (European Union 2006).

Preparations for the budget review have intensified during 2007. Different research institutes have already begun carrying out their analyses; the first papers on the issue were already published in the first months of 2007 (see e.g. Begg 2007). From this point of view the European Commission's kick-off came relatively late: its approach was presented in a document called "public consultation paper" that was published on 12 September 2007 (European Commission 2007a).

Now we are in the middle of this specific exercise, and by now, it may be worth looking at expert opinions as well as Member State positions. The present paper contributes to this in two ways: first, it analyses the responses to a questionnaire on the budget review, and second, it presents eight country-specific papers dealing with what are probably the most important aspects of the given countries' positions concerning the long-term reform of the EU budget.

The structure of the present report is the following: first, we summarise – on the basis of the Commission's public consultation paper – the main issues to be discussed during the EU budget review. After that, we present the questionnaire and discuss the responses both in general and according to specific groups of respondents. This section is followed by the presentation of the country-specific papers. Concluding remarks close the report.

2 THE BUDGET REVIEW: WHAT IS AT STAKE?

Tamás Szemlér

The objective of the present chapter is to provide an overview of the Commission's approach to the EU budget review. We have selected the Commission's above-mentioned "public consultation paper" as our starting point. We examine the Commission's approach in general and the twelve questions regarding general features, spending and revenue of the EU budget, as presented in the paper, in particular. Naturally, in most cases we are forced to deal with scenarios rather than provide definite answers, but these scenarios may still help us to continue reflecting on the situation. Last but not least, we try to identify some points which might be crucial if the review process is to succeed: from this point of view it is clearly of importance whether we consider it as a "golden opportunity" or perceive it as a "routine exercise"; as something new in its form, but nothing revolutionary in its content. The approach chosen by Europe's leaders in the next two years will be decisive for the long-term prospects of EU budget reform.

2.1 The budget review exercise

In order to launch a public discussion on the EU budget reform, the European Commission started a "public consultation" through the publication of a Communication on 12 September 2007. The Communication serves as an introduction for the citizens to the issues at stake: it provides a brief overview of the history of the EU's budget and calls attention to a number of key questions regarding the future development of general issues, revenue and expenditure. It provides neither answers nor even alternatives – as some observers had expected – but it serves as the kick-off for a public consultation that is to be open to EU citizens until 15 April 2008.

There are different opinions about the importance of the exercise. Some consider it a "golden opportunity". The argument behind this belief is that the review is the first "official" occasion to discuss fundamental questions concerning the EU budget, without the pressure of the need to agree on a mid-term Financial Framework. Needless to say, this independence may have the positive effect of seeing reform ideas – both old and new – (again) coming into the foreground. There will certainly be a number of interesting proposals that will provide the European Commission with ammunition for the review process. The Commission's approach – as declared in the public consultation paper – will be "one of openness and no taboos: it will prepare this review with no preconceptions and encourages all interested parties to contribute to the consultation" (European Commission 2007a, p. 3).

Further on, the review by the Commission "will itself be the subject of a fundamental debate in the EU institutions and the Member States" (European Commission 2007a, p. 3). On the one hand, this may serve as proof that the exercise is taken seriously. On the other hand, however, this also points at the dangers of the method chosen for the review. If we optimistically, but not necessarily unrealistically, assume that the consultation will lead to a lot of interesting and useful ideas and the Commission uses the results as input for its position regarding the reform process, it does not necessarily mean that future debates between Member States will build on these results.

One has to be especially careful regarding the political independence of the present process. If we look at the review process *per se*, it will exist at least until the Commission formulates its proposals. However, in the long-term interest of the integration process, it is worth thinking about the credibility of the exercise. It is important to note that the results of the review process – whatever they may be – are not binding for the Member States,[6] so there is no principal obstacle for them to return to the old, net position-based debates in concrete discussions. In particular, we should not forget that the preparations for the next mid-term Financial Framework will probably begin relatively soon after the conclusion of the review process, most likely in 2010–2011. A return by Member States to the games played in 1997-1999 and 2003-2005 could compromise the outcome of any positive budget review in 2008-2009. At present we can only hope this will not happen. As mentioned above, there is no guarantee that the outcome of the review – which has deliberately been given independence from the preparations for the next mid-term Financial Framework – will be respected.

In any case, the budget review and its overture, the Commission's public consultation paper, raise highly important questions. These questions (listed in Box 1) are worth serious reflection. Some of the questions are deliberately related to past experiences, while others need answers based on future objectives. The following sections are devoted to the discussion of these questions; even if finding definitive answers in the framework of the present concise paper would be too ambitious, any contribution to the reflection on them may help save these twelve questions from becoming just another dozen.

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[6] This point was confirmed in most interviews of the author with European Commission officials and Members of the European Parliament in July 2007.

Box 1 The questions posed by the European Commission

General issues

1. Has the EU budget proved sufficiently responsive to changing needs?
2. How should the right balance be found between the need for stability and the need for flexibility within multi-annual financial frameworks?

Expenditure

3. Do the new policy challenges set out here (i.e. in the European Commission's public consultation paper, see below) effectively summarise the key issues facing Europe in the coming decades?
4. What criteria should be used to ensure that the principle of European value added is applied effectively?
5. How should policy objectives be properly reflected in spending priorities? What changes are needed?
6. Over what time horizon should reorientations be made?
7. How could the effectiveness and efficiency of budget delivery be improved?
8. Could the transparency and accountability of the budget be further enhanced?
9. Could enhanced flexibility help to maximise the return on EU spending and political responsiveness of the EU budget?

Revenue

10. What principles should underpin the revenue side of the budget and how should these be translated in the own resources system?
11. Is there any justification for maintaining correction or compensatory mechanisms?
12. What should be the relationship between citizens, policy priorities, and the financing of the EU budget?

Source: European Commission (2007)

2.2 General issues

Regarding the EU budget in general, one can have at least two different points of view. The first view is very practical and closely related to the existing rules of the budgetary framework; the second one seeks optimal solutions. Both are worth brief consideration.

Regarding the first point of view, one can argue that the budget works just fine. Since 1988, despite tensions between Member States during Financial Framework negotiations, agreements have always been reached on time (although not without difficulty). The budget is intended (at least in principle) to help the realisation of the EU's objectives, and, as Member States are aware of this need, the result of their negotiations will supposedly reflect this. The generally successful financial management of some major integration "projects", such as the Cohesion Policy and Eastern enlargement, can be regarded as proof. Even some statements in earlier reports by the European

Commission (see European Commission 1998 and 2004a)[7] support this view: even though there are facts that do not necessarily point in the same direction, the Commission emphasised in these reports that the *functioning* of the budget has never been in any danger, despite all the tensions, and that the available resources have been sufficient to cover the needs (although the latter is guaranteed by definition through the flexible GNI resource).

While the above statements are true in themselves, it is worth looking at the budget from the second point of view as well. Did the budget really cover the *real needs*? Are the above-mentioned examples – the financing of the Cohesion Policy and Eastern enlargement – also examples of optimal solutions? The answer is arguably no: they were to a much greater extent a result of tough negotiations, allowing Member States to reach agreements based on the lowest common denominator. This common denominator approach has until now been sufficient to deal with the given "projects" in a more or less satisfactory way but the problem is that they are generally not pursued with a view to reaching optimality with regard to the *content* of the "projects". In some cases (the most striking example being the Lisbon Agenda) they have even been based on the willingness of Member States to contribute to them.

There is also a more general problem regarding the ability of the EU budget to cope with changing needs. The EU budget is by definition supposed to be a budget designed to cover certain common needs. It follows that these should first be identified[8] and that their financing should be subsequently assured. Although it may be less obvious than in the two areas mentioned above, the problem concerns the whole budget. Due to the pressure from an increasing number of Member States, the size of the budget is limited. Realistically its increase is more or less a function of the EU's economic growth. Moreover, expenditure on items judged as important, such as policies supporting the fulfilment of the Lisbon objectives, is limited. Since we cannot expect a substantial increase in the size of the budget, at least in the foreseeable future according to the present "EU budget climate", this situation is not likely to change.[9]

Regarding the other question, i.e. the role of the multiannual frameworks, the experiences have been very positive in the last two decades: after the 1980s budget debacles, the establishment of the frameworks introduced much more predictability into the process and they also reduced tensions

[7] While these reports discuss the own resources system, part of their statements concern the budget in general as well.
[8] See section 3 of the present paper for some new ideas regarding EU spending.
[9] Of course, except for important restructuring on the expenditure side – see section 3.

considerably – at least in terms of the frequency of heated debates. This is a very important achievement that should be preserved. On the other hand, mechanisms should be created to ensure more flexibility, if the EU is to be able to quickly respond to a changing environment. Such flexibility can be achieved in different ways. One possibility is to introduce a mid-term review of the mid-term Financial Framework. Based on the experiences of the previous period and on new challenges that have revealed themselves up until the review, necessary adjustments could then be agreed upon. Another possibility is to either introduce a separate heading for actions that have become necessary *after* an agreement on a new Financial Framework has been reached, or by using the margin between the actual amounts spent and the ceiling of the EU budget. The modification of the length of the mid-term Financial Frameworks, e.g. from seven to five years, might in itself contribute to more flexibility.[10]

2.3 Spending

Regarding spending, the Commission's public consultation paper discussed several new policy challenges which one way or another should be addressed by the EU's policies and thus possibly through its budget. An edited list of these challenges is presented in Box 2.

Arguably, at first glance all of the enumerated items seem very important. However, there are several aspects to consider before we can reach any firm conclusions. The effects of globalisation, the problem of long-term energy security or of climate change are crucial for all Member States, even though they are not necessarily equally challenging for all of them. With regard to these and related issues, partially figuring in the above list and where the effects hit all Member States, EU action and thus EU budget (co)financing seems a logic step to take. In other issues, where there are more substantial differences as to how Member States are affected (e.g. migratory pressures), and where their traditions differ (e.g. structure and balance of society), there may be less of a role for the EU budget to play. In any case, the EU should not create objectives resembling the original Lisbon Agenda. While visions are necessary, the opportunity to realise them rests on the presence of concrete and realistic objectives that are accompanied by adequate tools.

Bearing all this in mind, the list provided by the Commission's public consultation paper arguably covers the most important fields where the EU

[10] In addition, it could also be synchronised with the terms of the European Commission and of the European Parliament; on this, see more in Begg (2007).

Box 2 New policy challenges set out in the Commission's public consultation paper

- Growing diversity and change; an ever complex global environment
- Scientific and technological progress: knowledge, mobility, competitiveness, innovation
- Transformation to a knowledge and service economy
- Structure and balance of society: economic efficiency and inter-generational equity
- Solidarity: Europe's commitment to social justice; economic and social cohesion
- The impact of climate change on Europe's environment and society
- The pressures of climate change on EU policies on Europe's agriculture, countryside, rural society and maritime areas
- Secure, sustainable and competitive energy
- Migratory pressures from outside
- Security and safety of citizens
- Need for Europe's effective presence worldwide

Source: European Commission (2007), own editing

could, and indeed should, respond to common challenges. In the final analysis it is the Member States' decision whether and in which fields they want to press ahead together and where national policies should prevail, even if in some cases (e.g. the first three issues mentioned above) the European approach seems to be the only logical choice. In any case, if a decision is reached to act in concert, adequate finances should be assured where needed, and in some cases the best way to do this would be to include them in the expenditure headings of the EU budget.[11]

The reorientations should be made as soon as possible. However, we should not lose sight of the political reality. Accordingly, while an agreement on future priorities still seems an ambitious aim, the budget review 2008/2009 may really be a golden opportunity and the changes could be applied from the beginning of the next Financial Framework. In the case of highly contested issues, changes could be introduced gradually or phased-in at a later stage according to an agreed timetable.

Regarding European value added, a phrase often invoked in Community parlance, there exists neither an agreed definition, nor a clear measure.

[11] It is necessary to emphasise that the inclusion of any task in the EU budget does not mean (in itself) extra costs for the Member States; it is a redistribution of resources in order to fulfil tasks which can hopefully be addressed with greater efficiency at the EU than at the Member State level. Regarding the instruments used to decide at which level to intervene, the subsidiarity test developed by Pelkmans is worth serious consideration; see Pelkmans (2006) and Ederveen and Pelkmans (2006).

However, if programmes necessitating cooperation between Member States are given priority, the chances of obtaining more European value added (whatever this may be exactly) may increase. It is of crucial importance that national development objectives are in line with each other and correspond better to the requirements of the international environment.

The budget should concentrate on issues seen as important today and tomorrow, not on the *status quo* which has been the result of the previous decades. It does not necessarily mean that the Common Agricultural Policy, for instance, should be abolished: its objectives and, accordingly, its tools and its weight in the EU budget (and potentially also in the national budgets) should be reformed in light of present and future needs. This process has already begun. Clearly defined EU tasks – together with the concentration of EU financing – would result in a more transparent EU budget, and would also be closer to the average European citizen. This would also help enhance accountability: the simpler the rules are, the easier they are to monitor, control and evaluate.[12]

Effectiveness and efficiency of EU spending could also be enhanced by linking spending to the fulfilment – directly or indirectly – of related EU criteria. An example of this is the fulfilment of the Maastricht criteria or, in the countries which are already members of the euro zone, the compliance with the Stability and Growth Pact. Similar dispositions might reduce the space for suboptimal Member State behaviour that is detrimental to EU objectives.

2.4 Revenues

The position on revenue criteria in the Commission's public consultation paper is the following (European Commission 2007a, pp. 11-12):

> The sources and mechanisms of funding the EU budget should ensure an adequate funding of EU policies. They should be judged against commonly agreed principles such as economic efficiency, equity, stability, visibility and simplicity, administrative cost-effectiveness, financial autonomy and sufficiency. None of the funding sources of the EU budget satisfies all of these principles to the same extent, and it is difficult to conceive an "ideal" funding system. However, the resources structure should seek to comply with the most important funding principles to the greatest possible extent, while minimising negative effects from the perspective of other relevant principles. To achieve that objective, choices have to be made on the principles and their relative importance.

[12] Simplicity means first of all fewer exceptions, special conditions, etc., and it is not enough in itself – a coherent and comprehensible set of general rules could be regarded as optimal from this point of view. This should not exclude flexibility, also according to general rules.

These criteria are not new at all: in 1998, the Commission's report on the financing of the European Union basically established the same criteria for the own resources system; the next Commission report, published in 2004, repeated – and in some aspects specified – these criteria.

The fundamental question is the one on the choices of principles and their relative importance. In order to give a "perfect" answer to this question, we would have to be able to predict the future of the integration process. The choices would differ substantially if, on the one hand, the integration process develops into a real economic and, later on, a closer political union and, on the other hand, the internal development of the integration process remains more or less at the same level as today. In particular, questions about the relationship between citizens, policy priorities, and the financing of the EU budget depend to a great extent on the prospects of the whole integration process.[13]

While we are not sure about the finality, we may have some practical considerations: as there are policies to be financed, sufficiency of resources is of paramount importance. It should not be endangered, so the stability of the resources (guaranteed one way or another) is also crucial. Equity considerations are also important, especially at a moment when the European Commission and the Member States try to rethink the whole system and reach an agreement on reform. Further considerations are also important but there is little danger of treating them more flexibly.

Once we have a modern, forward-looking set of spending priorities agreed upon by the Member States *and* a system of own resources reflecting a consensus or even a compromise between Member States, exceptions, corrections and specific compensations have no place in the system. The only device conceivable that would conform to a well-functioning system would be a system of safeguard measures, taking into account not specific cases but potential situations judged to be worth avoiding.[14] Of course, it would be the ideal case, but we should bear this logic in mind when we look for real steps forward from the current situation.

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[13] Among other things, the introduction of an EU tax is very much dependent on these considerations.

[14] It is important to emphasise two things here. First, it is clearly about a system, and not about exceptions tailored to some country-specific needs. Second, such a system should be constructed in a way that it would be able to fulfil its function if necessary. The failure of the "dynamic brakes" mechanism in the 1970s demonstrates the importance of this second aspect.

3 THE POSITIONS OF EXPERTS AND POLICY-MAKERS: THE SURVEY

Andrea Éltető and Tamás Szemlér

In order to obtain answers to some basic questions, potentially revealing elements of Member State positions, we prepared a survey. At the beginning of the project we neither knew the content of the proposal of the European Commission, nor the positions of the European Parliament and the respective Member States, so the problem required a broad approach.

The survey has been formulated with the aim of providing answers to a number of questions that will probably appear in the EU budget debate. They are based on previous proposals that have surfaced from the Commission, the European Parliament and the respective Member States on the one hand, and on the other, on the timetable and proposal that was published by the Commission in September 2007.

The survey consisted of a questionnaire sent to different categories of potential respondents: researchers, policy-makers active in their country of origin, policy-makers representing their countries of origin in an EU institution, policy-makers active in an EU institution, and other respondents.[15]

The result is a sample that consists of 167 questionnaires, received from a total of 23 Member States, on positions regarding the EU budget review. More than half of those who answered are researchers; others are policy-makers or people from the business sector. Naturally, there were some missing answers to several questions, so the total number of answers may vary in each case.

3.1 Questions and overall results

The questionnaire included fifteen questions, most of them including sub-questions. In this way, the questionnaire remained concise (see the questionnaire in the Appendix), but made it possible to provide relatively detailed information on the most interesting issues concerning the EU budget. For some questions, besides encircling the answers chosen, the respondents were given the possibility of expressing further remarks or suggestions. They were also provided with this possibility at the end of the questionnaire.

As in the case of most surveys of a similar type, one should be careful with the results. The answers we obtained represent the personal opinions of

[15] Such as civil servants, businessmen, journalists, lobbyists, former national and EU officials and financial experts.

people, many of them, however, involved – in one way or another – in some phase of the review process or experts on the EU budget for a long period of time. While our results are not representative purely from the statistical point of view, they may be important because of the quality of the respondents.[16]

We sent the questionnaire to a limited number of people and our final sample is even more limited, because, as usual with such exercises, the majority did not reply. As a final result, we received 167 replies (filled in questionnaires) from 23 Member States; the country and category distribution of our respondents is presented in the Appendix. An interesting general feature is the overrepresentation of replies from most Central and Eastern European countries: we made proportionally similar efforts in all Member States, but the rate of return was very different. In some cases, we received an explanation for this,[17] in most cases we did not.

3.1.1 Size and general evaluation

In Questions 1 and 2 we asked the respondents to evaluate the present system of own resources as well as that of the expenditure side. The evaluation considered the fulfilment of the most important criteria that have been judged several times by the European Commission as well as by independent experts as being of paramount importance. Question 3, the size of the EU budget, is one of the eternal key issues of debates between Member States, so we included it in this general introductory part of the questionnaire. The answers here are supposed to reflect the opinion of the respondents about the size of the EU budget, given its present structure.

Let us now look at the results. As mentioned previously, Question 1 referred to the evaluation of the present system of own resources on a scale of one to five (five being the best score). Five aspects were presented and as you can se in Figure 1, most of the responses in each of them hover around the middle. "Transparency" was considered to be very poor and received the lowest scores. At the other end of the scale, "sufficiency" was evaluated as being very good, and obtained the most fives. "Financial autonomy", "fairness of gross contributions" and "efficiency" were evaluated as being quite poor. The general picture (see Figure 1) is that the respondents on average found the own resources system to be far from optimal but the responses also reflect the well-known fact that, despite all its shortcomings, it still functions.

[16] Averages and standard deviation values of some scale-evaluation results are provided in the Appendix.

[17] e.g. in the case of the UK, we received some feedback from competent potential respondents saying that until there is an official position of the country, they are not able or willing to provide their opinion.

Figure 1 Evaluation of the present system of own resources

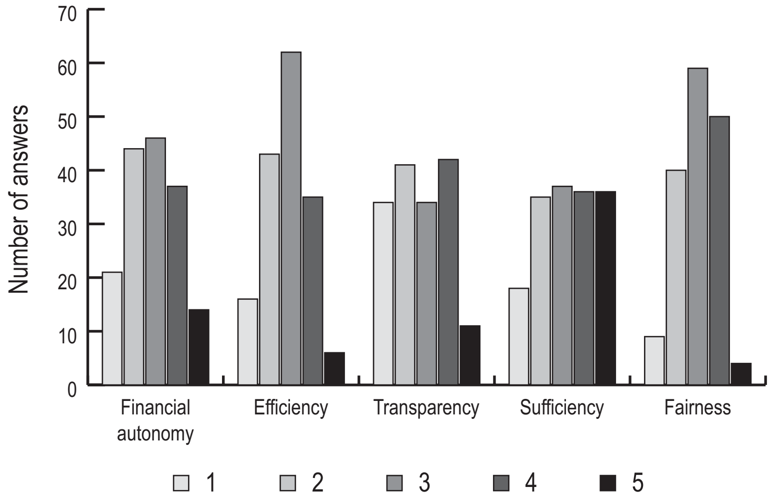


Figure 2 Evaluation of the present expenditure structure

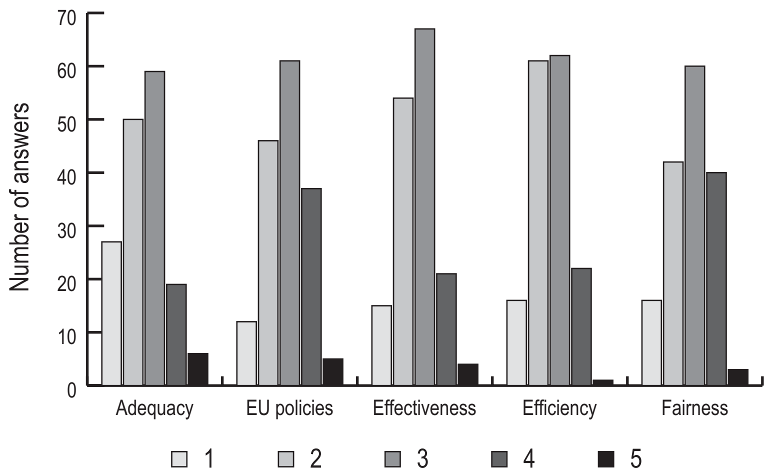


Table 1 "What size of the EU budget would best fit the interests of your country?"

Share of EU GNI	Number of answers	Per cent
0-0.50	9	5.88
0.50-0.75	11	7.19
0.75-1.00	34	22.22
1.00-1.25	33	21.57
1.25-1.50	33	21.57
> 1.50	33	21.57
Total	**153**	**100.00**

Question 2 was put using the same logic as Question 1, but referred to the expenditure structure of the EU budget. Answers here were somewhat more critical than in the case of the system of own resources. Most respondents circled two or three and the number of fives was very low for each of the five angles. Some minor differences are worth mentioning: "adequacy" received the highest number of ones. Interestingly, it was also given the highest number of fives. "Efficiency" obtained fewer ones but and hardly any fives. The higher number of fours renders "EU policies" and, more interestingly, "fairness", the best-regarded aspects of the EU budget expenditure structure.

Question 3 referred to the optimal size of the EU budget according to the respondent. The distribution of the answers was fairly equal among the pre-defined size categories, especially among those over 0.75% of the EU GNI but most respondents opted for more than 0.75% of EU GNI.

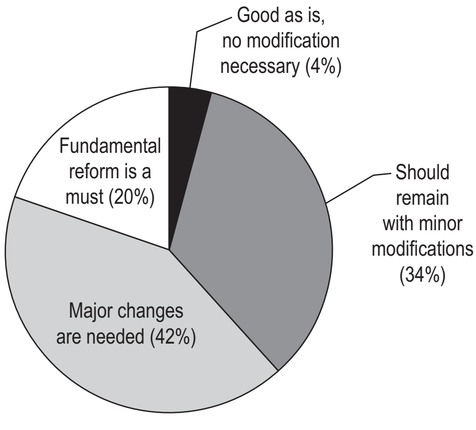
Out of 153 responses, 33 respondents, or 21.57 % of those who answered this question, indicated their preference for an EU budget greater than 1.5% of the EU GNI. Looking at the EU budget debates on relatively minor changes during the last decade, we may consider this a relatively high share. Even more interesting is the fact that the specific size they indicated varies from 2 to 15% of EU GNI. The presence of such a high figure implies that the ideas presented in the 1977 MacDougall report are still with us and may eventually be reinforced if political integration takes the EU towards a more federative structure than today.

3.1.2 Own resources system

Questions 4–7 sought answers to the respondents' opinions on the present own resources system, as well as their openness towards reform. This was put in a general way in Question 4, while questions 5–7 were related to certain important specific issues of the own resources system.

While Question 5 was about a present – and intensively debated – element of the system (the UK rebate), Questions 6 and 7 tried to map the respondents' inclination towards a fundamental change on the revenue side of the EU budget: the introduction of (a) genuine EU tax(es). We were aware of the fact that such a change might seem radical to many of the respondents, which is why we fine-tuned the question in two ways. First, we distinguished between the introduction of an EU tax *without giving* taxation powers to the EU budgetary authority (Question 6) on the one hand and *giving* taxation powers to the EU budgetary authority (Question 7) on the other. Second, in both cases we posed the question in terms of different time perspectives. Given the widespread hesitance towards the concept of an EU tax, with all its implications, we worked with long-term perspectives in order to avoid answers too influenced by the current political reality.

Figure 3 Evaluation of the present own resources system



As became clear when we discussed the answers to Question 1, the evaluation of the present system of own resources was not very favourable. Hence, it came as no surprise that 62% answered that a major or fundamental reform of the present own resources system was necessary. Figure 3 shows the shares of all pre-defined categories. The fact that only 4% of all the respondents found no modification to the system necessary, while an overwhelming majority, 96% of all the respondents, to a varying degree wanted to change the system, is a very clear indication of the general dissatisfaction with the present form of the own resources system.

The level of discontent with the UK rebate and other corrections of payments was even greater. As the answers to Question 5 indicate (see Table 2), more than 38 per cent of the respondents thought that a general correction mechanism should be introduced and according to more than 44 per cent all corrections should be abolished. Although a general correction mechanism and the abolition of all corrections are two very different solutions, they would both put an end to the present situation of country-tailored corrections. The total share of answers for these two categories (over 83%) clearly shows that there are high expectations for change.

Table 2 The UK rebate and other corrections of payments

	Number of answers	Per cent
Good as is, no modification necessary	6	3.70
Should remain with minor modifications	21	12.96
A general correction mechanism should be introduced	63	38.89
All corrections should be abolished	72	44.44
Total	**162**	**100.00**

Questions 6 and 7 referred to the introduction of an EU tax in the near future or in the long run. First (in Question 6) we were interested in the opinion of the respondents regarding the possibility of introducing an EU tax *without* giving the EU budgetary authority taxation powers. As we can see in Figure 4, people had a fairly negative opinion on the introduction of a tax in the short run. Within the ten-year-period category almost half (48%) of the answers were negative. The answers were more balanced in the longer run.

The second variation of the same question (Question 7) asked for the possibility of introducing an EU tax *giving* the EU budgetary authority taxation powers (Figure 5). Here the position of the respondents was even more negative than in the previous case. This time they also had a fairly negative opinion for the longer term. This means that the prospect of giving taxation powers to the EU budgetary authority threatens significantly the possibility of introducing an EU tax.

3.1.3 Expenditure side

With Questions 8–11, we intended to obtain information about the respondents' opinion on the present expenditure items as well as possible future expenditure needs of the EU budget. Questions 8 and 9 related to the current (2007-2013) expenditure structure, and asked the respondents' opinion from two angles: the importance and the actual share of the main expendi-

Figure 4 Opinions on EU tax **without** EU taxation power

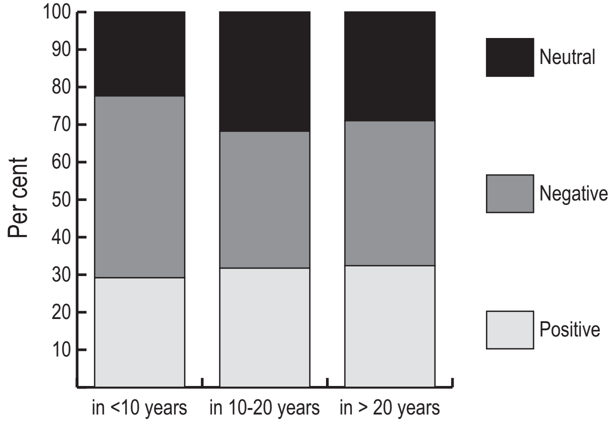
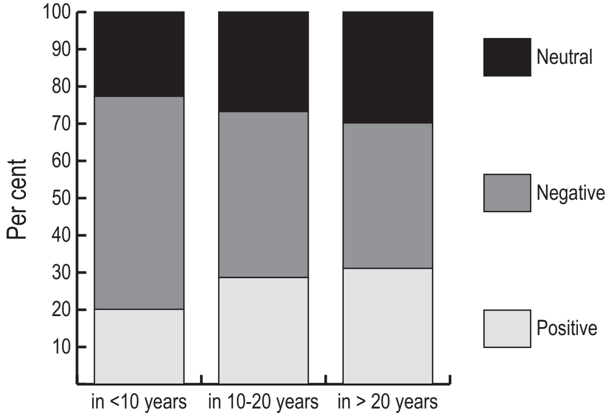


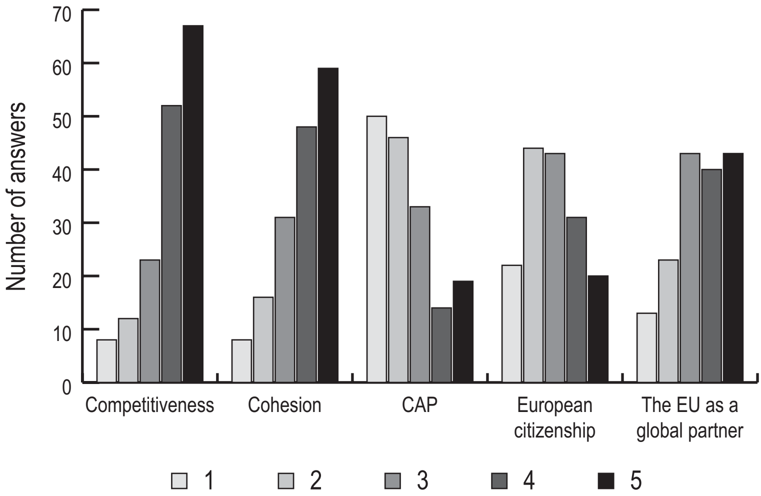
Figure 5 Opinions on EU tax **with** EU taxation power



ture headings. Answers to both questions were supposed to contain valuable information on opinions on the possible restructuring needs of the current expenditure structure.

Questions 10 and 11 went beyond the present expenditure structure, and they did so in different ways. In Question 11, respondents were allowed to

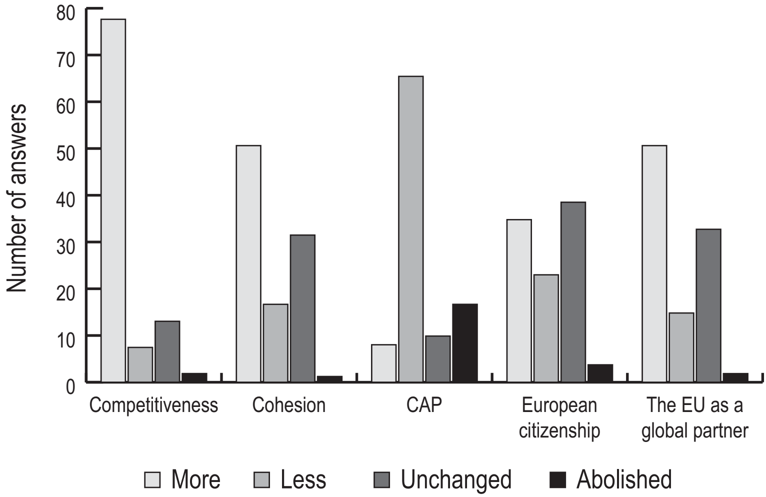
Figure 6 Opinions on the importance of current expenditures



specify any new expenditure items they wished to see in the EU budget (if any). From the pool of answers it is possible to identify the most "popular" potential new items. Question 11 was devoted to one specific aspect of expenditure, namely (the supposed) additional expenditure related to further enlargements. Previous enlargements – especially (but not only) the accession of relatively less developed countries – have always caused tensions around the EU budget negotiations, something that is not expected to change in the foreseeable future. The question was also intended to specify fears and expectations in this respect.

As mentioned above, in Question 8 we asked the respondents to assess the importance of the present expenditure headings in the EU budget on a scale of one to five. As Figure 6 shows, both competitiveness and cohesion were ranked as being very important (four or five) by the vast majority of the respondents. This is a very important and interesting finding: as you may remember, in 2004-2005, these items were treated as part of a zero-sum game, i.e. cohesion expenditure could be kept high mainly at the expense of competitiveness expenditure (which still increased but from a low level). This situation was the result of an earlier agreement on the financing of CAP expenditure until 2013: as there was no willingness to increase the size of the EU budget, there was no other way cohesion expenditure could be salvaged.

Figure 7   Opinions on the shares of current expenditures



This is the particular reason why it is interesting to note that the CAP was regarded as unimportant or not very important by a clear majority of the respondents – many of them from countries which benefit considerably from the CAP. This is a very important finding, and – especially together with the reactions on current rebates – may be perceived as a "wind of change" (this perception seems to be confirmed by the country papers in Chapter 4).

The other two items were judged to be of medium importance; although European citizenship was regarded as less important than the EU as a global partner.

Bearing these results in mind, answers to Question 9 were not surprising. We asked respondents to evaluate the actual share of the expenditure items, whether resources were considered sufficient or whether there were areas where they should be increased or decreased. 77.6 per cent of the respondents thought that the share of the item "Competitiveness for growth and employment" should be greater. Half of the respondents thought that the share of "Cohesion for growth and employment" and "The EU as a global partner" should be increased. However, 65% expressed a preference for decreasing CAP expenditure; according to 17%, the CAP should be abolished altogether.

Table 3 New expenditure items suggested by respondents

New items suggested	Number of answers
Common energy policy	13
Defence	12
Climate change/environmental protection	10
Research & development/education	10
Immigration/social group integration/social policy	5
Labour market development/net job creation	3
More funds to solidarity, equality and gender issues	3
Foreign aid (make EDF part of the EU budget)	2
Culture	2
Infrastructure	1
Baltic Sea Strategy	1
Union integration projects	1
Common EU embassies	1
Conditional financial aid to North African countries*	1
The EU faces new challenges**	1

* Condition: low level of illegal immigration to EU; aim: to motivate North African governments to better patrol their external borders, so as to alleviate pressures on EU social security systems and to make workers remain in their home countries.

** Rising energy prices; demographic change; sustainable development; alleviating globalisation effects; and development of knowledge-based economy. The EU needs to reflect, first, on what the EU's political priorities are – i.e. which challenges the EU should try to find answers to – and, second, on how current EU policies could be adjusted to comply with these political priorities.

To the question: “Would you like to see new expenditure items?” (Question 10), 39 per cent answered “yes”. There were items mentioned several times, like energy policy, defence and climate change. We grouped the main areas raised by respondents in Table 3 stating the number of respondents who mentioned them. A common energy policy, climate change and environmental protection, R&D, development, education were not surprisingly at the top of the list; meanwhile, it is interesting to note that European defence was also to be found there.

Regarding the question on further enlargements (Question 11) opinions were divided. According to 52 per cent of the respondents the present EU budget will not be able to deal with enlargement. Respondents gave various reasons for this (see Box 3). Most answers emphasised the problem of Turkey’s accession. Several respondents considered the present structure of the CAP as a hindering factor. We grouped the answers according to the score obtained in the box.

3.1.4 Present status and chances of the review

Questions 12–13 related to the relationship between Treaty obligations and the EU budget. The answer to Question 12 was a simple evaluation of the actual situation of how much the EU budget reflects the EU objectives laid down in the Treaty. Question 13 was closely related to Question 12 but more specific on the preferences of the respondents regarding EU objectives laid down in the Treaty and their representation in the EU budget.

Question 14 was about the current EU decision-making process. Here the respondents were able to signal their desire for change in different areas. They were also allowed to add their own suggestions beyond the ones offered in the questionnaire.

In the final question, Question 15, we asked for the respondents’ perception about the chances of the 2008/2009 EU budget review. The aim of the question was to obtain an impression of the expectations of different groups of professionals dealing with the EU budget regarding the chances of this process at a stage when the process itself is expected to gain momentum.

The assessment of the present structure of the EU budget in relation to the objectives set out in the Treaty (Question 12) is not very flattering. As is shown in Table 4, the answers hovered mainly around the middle. Moreover, 82% of the respondents did not agree with the statement that any costs accrued to Member States as a consequence of their fulfilling the objectives laid down in the EC Treaty should be funded by the EU budget (Question 13).

Box 3 Potential problems stemming from further enlargement

Remarks related to Turkey

- Too large a share to ineffectively centralised CAP. In case Turkey becomes a member the agricultural policy will not be sustainable
- Accession of Turkey is the biggest problem, may become an incalculable risk. Probably impossible to accommodate Turkey within the present structure. The EU budget could in no way accommodate the accession of Turkey in 10-15 years. It will need to be thoroughly overhauled for this purpose - especially the CAP which should be abolished by the time Turkey joins the EU. CAP and Cohesion expenditure would under current conditions go largely to Turkey and the Balkans; therefore current Member States would see dramatic reductions in these receipts. Turkey would not fit in under the current structure, the Western Balkan states maybe;
- Possible accession of Turkey to the EU would cause substantial burden for the EU budget (especially in the area of Cohesion policy and Common Agriculture Policy of the EU). In that case EU should restrict the share of EU budgetary expenditures spent on Common Agriculture Policy and Cohesion Policy should be concentrated on the development of the regions lagging behind in the poorer Member States with GDP per capita below the EU average. In the case of future EU enlargements without Turkey the present structure of the EU budget would be considered sufficient.

Remarks related to the financial burden of enlargement

- Further enlargements (mainly involving much less developed countries) will mean new types of challenges;
- Current and potential candidate countries need higher financial support because they have much more complicated problems as compared to the previous enlargements;
- New Member States are even more underdeveloped and will thus require high levels of financial assistance. There is not enough money for enlargement;
- With its present structure the EU budget is not able to deal with the needs of further enlargements, especially in cases where enlargement refers to countries with huge populations and low standards of living;
- More funds are needed in order to better integrate Balkan states.

Remarks related to increasing differences

- Inequality in the EU is too big;
- More expenditures for cohesion is required;
- The current system does not adequately deal with regional differences in the Union, such as the greater importance of a particular policy for an individual region.

Other remarks

- Excessive bargaining power of core countries;
- Less attention should be given to *juste retour*;
- Too much money for agriculture and the Structural Funds. Too little money for research, education and innovation;
- A general correction mechanism should be introduced. Also greatest increases in the Budget 2008 are related to internal policies for the Member States;
- No more enlargement, at least in ten years;
- May need to move to EU tax but not on business and only if corresponding reduction in other taxes.

Table 4 "To what extent do you think the EU budget structure reflects the objectives laid down in the Treaty?"

Ranking	Number of answers	Per cent
1	5	3.07
2	36	22.09
3	75	46.01
4	46	28.22
5	1	0.61
Total	**163**	**100.00**

The respondents were not satisfied with the decision-making process either. To Question 14 (Do you consider the EU decision making process optimal?), 77% of the sample answered "no". They were allowed to choose among five items in the questionnaire where changes could be implemented and Figure 8 shows the distribution of answers among them. A majority of 83 respondents would prefer changes in the decision-making process related to the Financial Frameworks, while half of the respondents felt that changes are needed in the division of powers between the Council and the European Parliament.

In the final question (Question 15) the 2008/2009 budget review itself was assessed. Only 5% of respondents expected short-term effects from the review, while 68% of the respondents thought that it will lead to important changes in the long run (i.e. after 2013). This picture, which could still be viewed as quite optimistic, is somewhat modified by the fact that more than a quarter of the respondents (27%) were quite sceptical, saying that no changes will follow (see Figure 9).

3.1.5. Miscellaneous remarks by respondents

At the end of the questionnaire we gave respondents the opportunity to add any remarks of their own. It turned out that 16 per cent of the sample used this opportunity. While it is impossible to draw any general conclusions – given the nature of the question – it is still worth looking at some major points. These are given in Box 4.

Figure 8 Preferred changes in budgetary decision-making

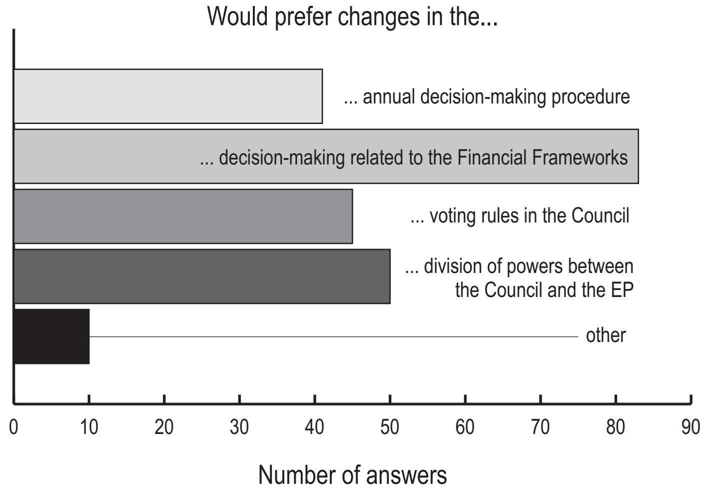
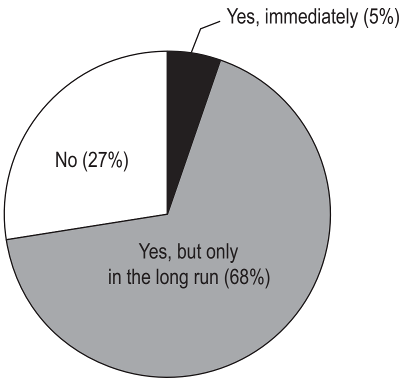


Figure 9 Opinions on the chances for budget review success



Box 4   Miscellaneous remarks by respondents

- First, EU policies should primarily be targeted towards employment and competitiveness, not extensive GDP growth. Second, the EU should focus on education to motivate member governments to do the same. EU impact will be rather symbolic, but there is an opinion leader effect. Third, the CAP should focus on small farms and the production of organic food and in order to make the policy effective, the bureaucracy burden put on farmers has to be diminished substantially.
- Even though more weight should be given to public goods with a cross-border dimension, the stabilisation and distribution branches have been neglected in the Commission’s Communication. Although the time is not ripe for a full discussion, there are a number of interesting ideas that at least ought to be discussed (the idea of a European Unemployment Fund, for example). Moreover, redistribution is a feature of the EU budget today and should probably continue to be so in the future in light of forthcoming enlargements.
- Should a sufficient reform of expenditure be realised, general corrections would no longer be necessary. If, however, these reforms do not occur, a justification for corrections (specific or general) remains.
- The Cohesion Policy should be focused on the least prosperous countries in the EU, much more than it is today. There are currently doubts about the effectiveness of the Cohesion Policy. If we can manage to reform the Cohesion Policy in such a way that it only supports the countries that need it and truly delivers results, then it would be the cornerstone of the EU budget.
- The CAP should be abolished. A contingency agricultural fund should be set up instead. This fund should finance the agricultural sector only in times of war or major global economic upheaval when international trade in foods and agricultural commodities is significantly hampered.
- The discussions on expenditure and revenue of the EU budget are unavoidably drifting towards *juste retour* logic and political deadlock. Separating the discussion on the revenue side, a greater autonomy in the own resources system would facilitate future discussions and would allow for the necessary financial development of the new European policies. Giving up the narrow net payments positions is a necessary pre-condition for the development of horizontal EU interests.
- The importance of issues (or the objectives in the Lisbon Treaty) need not be reflected in the EU budget. For example, the competition policy is an extremely important policy, but the EU does not need a lot of money to implement it. Moreover, the EU should be funded by the Member States in a way that is rather similar to the current system and should not collect its own resources.
- The present own resources system is inadequate, in practice it is more like a membership fee. Three sources should be considered. First, a European income tax with European progressivity (i.e. if persons A in Bulgaria and B in Germany both earn EUR X, they would pay the same amount in taxes to the EU budget. The system would be fair since high income categories are smaller in Bulgaria than in Germany). It is feasible only without a tax increase (for public acceptance a general decrease would be desirable), only a new level would be brought in (the Union level). Second, VAT with a new structure: advantages are huge for consumers and the tax should be related to trade. Third, taxation of companies, who are the major beneficiaries of the Single Market. A pre-federal budget (2-2.5% of EU GDP) would be favourable (in the MacDougall sense). A complete reform of the CAP is needed. It is outdated, dysfunctional, and it leads to a suboptimal allocation of resources. Agriculture needs resources, but mostly for development. So instead of income and price support there should be targeted innovation, development and restructuring support. Special social problems in the agricultural sector should also be dealt with. Some aspects should be included in regional development (rural areas). A EU tax authority should be gradually developed and the role of Parliament should be increased.

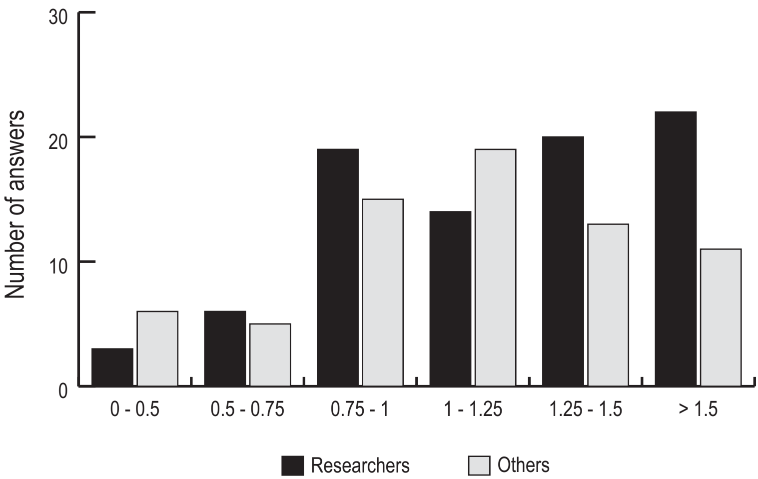
3.2 Analysis according to groups

We analysed the results in two different of groups after having divided the respondents in the following way:

1. according to their position: we distinguished researchers and others (policy-makers or business people); and
2. according to country groups.

In the first group, there are 88 questionnaires filled in by researchers and 78 by others (mainly policy-makers in the given country or in the EU). Since researchers and policy-makers have different working conditions and work situations, it is possible that their opinions differ too. However, this was not really revealed by the results. Responses were similar in almost all the questions, there were only minor differences. Nevertheless, there is one question where there is a clear significant difference: the desired size of the EU budget.

Figure 10 Opinions on budget size: Researchers vs. Others

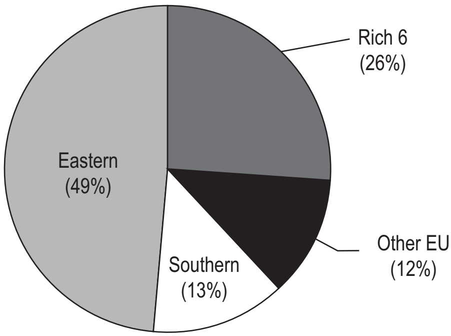


Researchers were on average in favour of a much larger budget in terms of EU GNI than non-researchers. Figure 10 shows that a budget larger than 1.25 or even 1.5% of the EU GNI was very popular among researchers, while others preferred 1-1.25%.

In the case of the final category (above 1.5%) we asked for a specification. The difference here was impressive: in the case of researchers (some of them marked 15%) the average preferred size of the budget was 4.12% while for the others it was 0.85%.

The second grouping was organised according to country groups, based on certain important characteristics of the members of each group. We created four groups of countries more or less according to their EU budget position. The highest share in the sample, 49 per cent, included the Eastern countries (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia), followed by the Rich Six (Austria, France, Germany, the Netherlands, Sweden and the UK), with 26 per cent of the replies. Finally, the Southern countries (Greece, Portugal and Spain) and Other EU countries (Belgium, Cyprus, Finland, Ireland and Italy) had similar shares in the sample (see Figure 11).[18]

Figure 11 Country groups: shares in sample



[*] *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

In the following analysis, we examine the sections of the questionnaire where there may be a significant difference between country groups. Question 1 related to the evaluation of the present system of own resources. Table 5 shows the distribution of answers among the groups. In the case of each group we mark the highest percentage share of answers (by using bold font in those cells).

[18] Traditional and actual net positions and related interests with regard to the EU budget explain why some geographically Southern European countries are not part of our Southern group.

Table 5 Evaluation of the present system of own resources (percentage)*

Financial autonomy	1	2	3	4	5
Eastern	3.90	23.38	**40.26**	28.57	3.90
Other EU	10.00	25.00	**55.00**	10.00	-
Rich 6	23.26	27.91	**39.53**	9.30	-
Southern	4.55	**36.36**	13.64	31.82	13.64
Efficiency					
Eastern	5.19	29.87	23.38	**32.47**	9.09
Other EU	20.00	15.00	**50.00**	10.00	5.00
Rich 6	23.26	**32.56**	25.58	9.30	9.30
Southern	13.64	18.18	**31.82**	27.27	9.09
Transparency					
Eastern	12.99	20.78	25.97	**28.57**	11.69
Other EU	15.00	**40.00**	30.00	15.00	-
Rich 6	**45.24**	30.95	11.90	9.52	2.38
Southern	9.09	18.18	13.64	**59.09**	-
Sufficiency					
Eastern	5.19	23.38	23.38	**27.27**	20.78
Other EU	10.00	**35.00**	20.00	15.00	20.00
Rich 6	16.67	4.76	19.05	21.43	**38.10**
Southern	23.81	**33.33**	**33.33**	9.52	-
Fairness					
Eastern	3.95	19.74	**46.05**	27.63	2.63
Other EU	5.00	30.00	25.00	**40.00**	-
Rich 6	7.14	**30.95**	**30.95**	28.57	2.38
Southern	9.09	27.27	27.27	**36.36**	-

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

Table 6 Evaluation of the present system of expenditure structure (percentage)*

Adequacy	**1**	**2**	**3**	**4**	**5**
Eastern	15.58	22.08	**45.45**	14.29	2.60
Other EU	10.53	26.32	**42.11**	15.79	5.26
Rich 6	19.05	**50.00**	14.29	9.52	7.14
Southern	18.18	31.82	**45.45**	4.55	-
EU policies					
Eastern	1.30	19.48	**44.16**	29.87	5.19
Other EU	15.79	**31.58**	**31.58**	21.05	-
Rich 6	9.52	**38.10**	33.33	19.05	-
Southern	18.18	**36.36**	31.82	9.09	4.55
Effectiveness					
Eastern	5.13	29.49	**51.28**	12.82	1.28
Other EU	10.53	**31.58**	**31.58**	21.05	5.26
Rich 6	14.63	**39.02**	34.15	9.76	2.44
Southern	13.64	**36.36**	31.82	13.64	4.55
Efficiency					
Eastern	5.13	29.49	**48.72**	16.67	-
Other EU	10.53	**42.11**	**42.11**	-	5.26
Rich 6	19.05	**52.38**	21.43	7.14	-
Southern	9.09	**31.82**	**31.82**	27.27	-
Fairness					
Eastern	10.26	21.79	**37.18**	29.49	1.28
Other EU	10.53	15.79	**36.84**	26.32	10.53
Rich 6	14.63	**41.46**	26.83	17.07	-
Southern	-	18.18	**59.09**	22.73	-

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

Table 7 Ideal size of the EU budget, % of EU GNI*

	0-0.5	0.5-0.75	0.75-1.00	1-1.25	1.25-1.50	> 1.5
Eastern	7.89	5.26	22.37	18.42	**25.00**	21.05
Other EU	-	5.56	**27.78**	**27.78**	11.11	**27.78**
Rich 6	8.11	10.81	**29.73**	21.62	18.92	10.81
Southern	-	9.09	4.55	27.27	22.73	**36.36**

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

As you can see, in the case of "Efficiency", Eastern and Southern countries considered the system better than the Rich 6 (and the Other EU group) and the situation is the same for "Transparency". On the other hand, in the case of "Sufficiency", almost 40 per cent of the Rich country respondents believe that resources are sufficient (since they are mostly the donor countries) but others (mainly Southern countries) are not so enthusiastic.

Table 6 shows the evaluation of the expenditure side. The results are quite similar in each group with minor differences. Mediocre or bad (two and three) are the most frequent answers.

Table 7 shows what size of EU budget would suit the interests of the country groups. As you can see from Table 7, the opinion of the Rich 6 and the Southern countries is different regarding the optimal size of the EU budget. While respondents from the Rich 7 marked 0.75-1.00%, respondents from Southern countries preferred higher than 1.5 per cent of EU GNI.

Regarding the possibility of introducing an EU tax the Rich 6 were generally the most sceptical both as concerns the short and the long-term (see Tables 8a and 8b). This phenomenon is independent of the issue of giving taxation powers to the budgetary authority. The Southern and the Eastern countires were more optimistic.

There was a difference between the country groups regarding the importance of the expenditure items in the EU budget. "Competitiveness for growth and employment" was very important for all groups. At the opposite end of the scale there was the evaluation of the CAP, i.e. it was

Table 8a Introducing an EU tax **without** giving the EU budgetary authority taxation power (percentage)*

In < 10 years	Positive	Negative	Neutral
Eastern	30.38	**43.04**	26.58
Other EU	20.00	**55.00**	25.00
Rich 6	28.21	**64.10**	7.69
Southern	**36.36**	31.82	31.82
In 10-20 years			
Eastern	35.14	27.03	**37.84**
Other EU	25.00	**37.50**	**37.50**
Rich 6	27.78	**55.56**	16.67
Southern	**33.33**	**33.33**	**33.33**
In > 20 years			
Eastern	**37.50**	25.00	**37.50**
Other EU	18.75	**43.75**	37.50
Rich 6	30.56	**55.56**	13.89
Southern	30.00	**50.00**	20.00

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

considered quite unimportant by all groups (the highest percentage came from the Rich 6). In the case of "Cohesion for growth and employment" the picture was slightly more complex, and was most important for the Eastern and Southern countries – presumably due to their lower development level within the EU – and only moderately important for the Rich 6.

Table 8b Possibility of introducing an EU tax **giving** the EU budgetary authority taxation power (percentage)*

In < 10 years	Positive	Negative	Neutral
Eastern	14.29	**55.84**	29.87
Other EU	31.58	**47.37**	21.05
Rich 6	17.50	**72.50**	10.00
Southern	36.36	**40.91**	22.73
In 10-20 years			
Eastern	27.85	**39.24**	32.91
Other EU	**33.33**	**33.33**	**33.33**
Rich 6	28.95	**57.89**	13.16
Southern	28.57	**47.62**	23.81
In > 20 years			
Eastern	34.67	29.33	**36.00**
Other EU	**41.18**	29.41	29.41
Rich 6	24.32	**51.35**	24.32
Southern	23.81	**57.14**	19.05

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

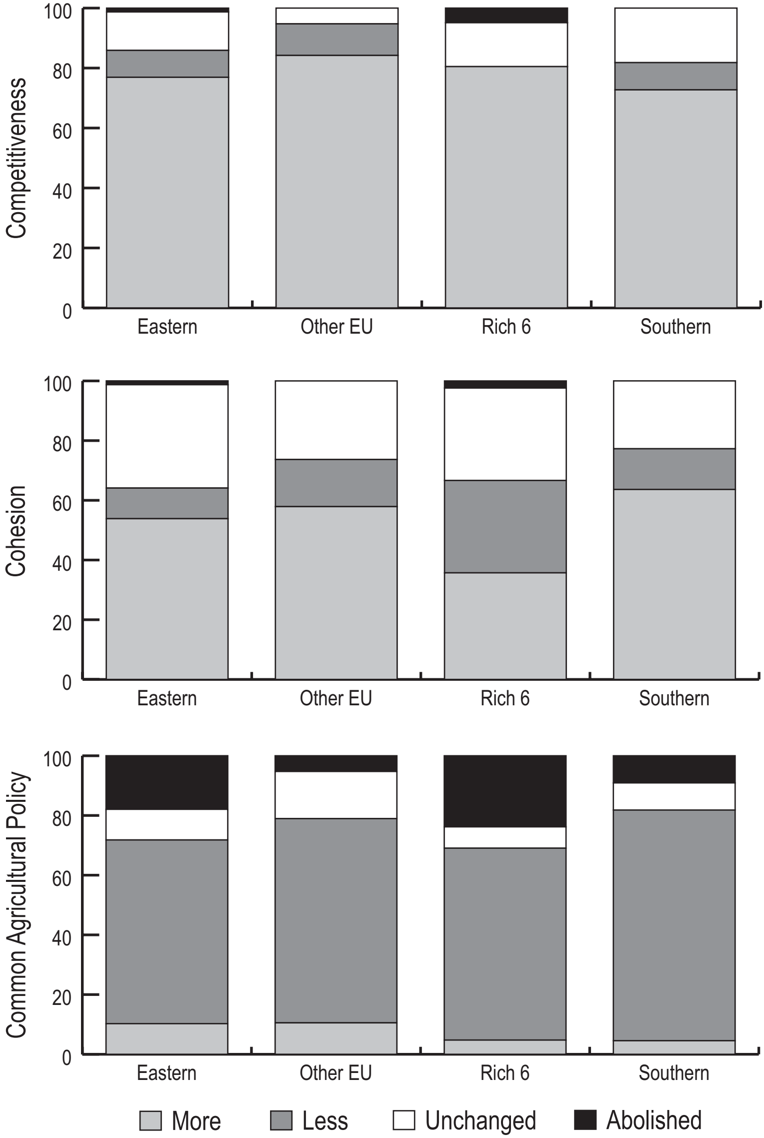
"European citizenship" was slightly more important for the Eastern countries (perhaps because they are new and "proud" EU members, but perhaps also due to practical considerations, such as the high cost of protecting the EU's eastern borders), but on the whole it was of medium importance to the respondents. "The EU as a global partner" was much more important for the Rich and the Southern countries than for the Eastern countries and Other EU group. This is probably because of the traditional historical and economic ties between core EU countries (like the UK and France) or Southern countries (like Spain and Portugal) and less developed non-EU countries, such as the former colonies in India, Africa and Latin America.

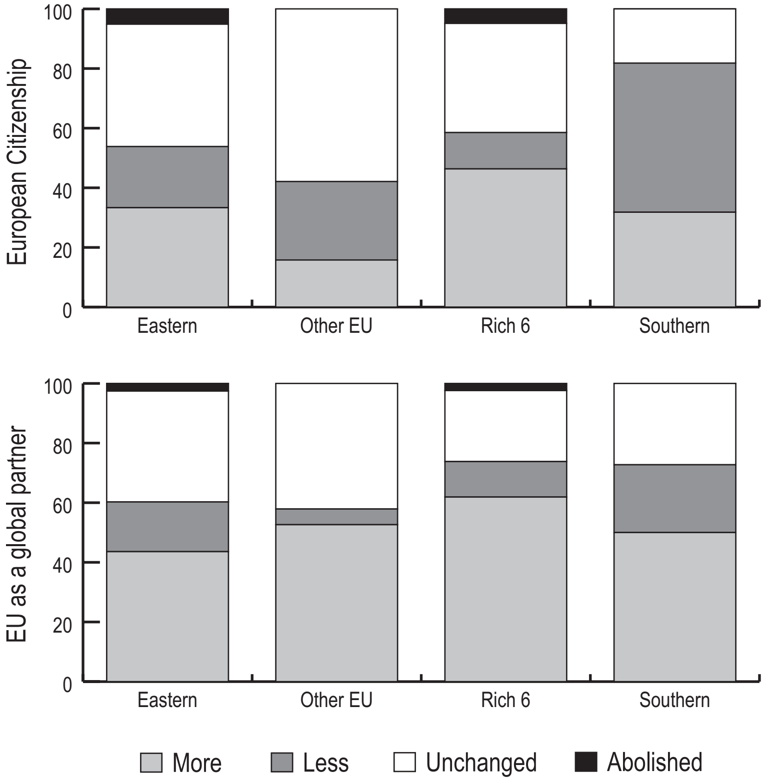
Table 9 Evaluation of the importance of the expenditure items in the EU budget (percentage)*

Competitiveness	**1**	**2**	**3**	**4**	**5**
Eastern	3.85	7.69	10.26	30.77	**47.44**
Other EU	5.26	10.53	10.53	26.32	**47.37**
Rich 6	7.14	4.76	14.29	35.71	**38.10**
Southern	-	9.09	31.82	**36.36**	22.73
Cohesion					
Eastern	5.13	3.85	11.54	30.77	**48.72**
Other EU	5.26	5.26	21.05	**42.11**	26.32
Rich 6	7.14	16.67	**30.95**	26.19	19.05
Southern	-	18.18	22.73	22.73	**36.36**
CAP					
Eastern	24.36	**28.21**	20.51	11.54	15.38
Other EU	15.79	**26.32**	**26.32**	15.79	15.79
Rich 6	**47.62**	26.19	14.29	2.38	9.52
Southern	**36.36**	**36.36**	22.73	4.55	-
European citizenship					
Eastern	9.09	19.48	**33.77**	27.27	10.39
Other EU	26.32	**42.11**	26.32	5.26	-
Rich 6	9.76	**26.83**	24.39	17.07	21.95
Southern	22.73	**45.45**	9.09	9.09	13.64
EU as a global partner					
Eastern	7.69	11.54	**30.77**	28.21	21.79
Other EU	-	**42.11**	21.05	15.79	21.05
Rich 6	7.14	4.76	28.57	26.19	**33.33**
Southern	18.18	18.18	13.64	18.18	**31.82**

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

Figure 12a-e Preferred shares of present expenditure headings (percentage)*

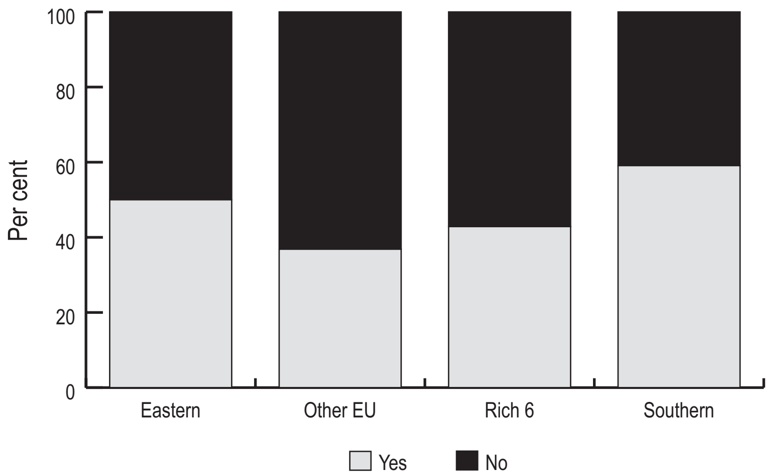




* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

In accordance with the considered importance of the expenditure items, respondents indicated whether they wanted see a lower or greater share of the items in the budget. As Figure 12 shows, each group wanted more for Competitiveness and Cohesion and less for the CAP. In the case of the other two categories the picture was more mixed, the percentage share of "unchanged" was higher.

Figure 13 “Do you think the present structure of the EU budget will be able to deal with the needs of further enlargements?”*



* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

As regards further enlargements, the opinions of the different groups were mixed but respondents from Southern and Eastern countries were slightly more optimistic than the others (Figure 13).

The differences were larger when the budgetary process was assessed: only 7.1 per cent of the Rich 6 thought that it was optimal, while among the Southern respondents the figure was 41 per cent (Figure 14).

Due to the fact that the image of the budgetary process is so negative, many respondents marked items to change. Almost 75% of the respondents in the Eastern and 70% of the Southern countries but also almost 60% of the Rich 6 marked “Decision-making related to Financial Frameworks” as an area requiring change.

Figure 14 "Do you consider the EU budgetary process optimal?"*

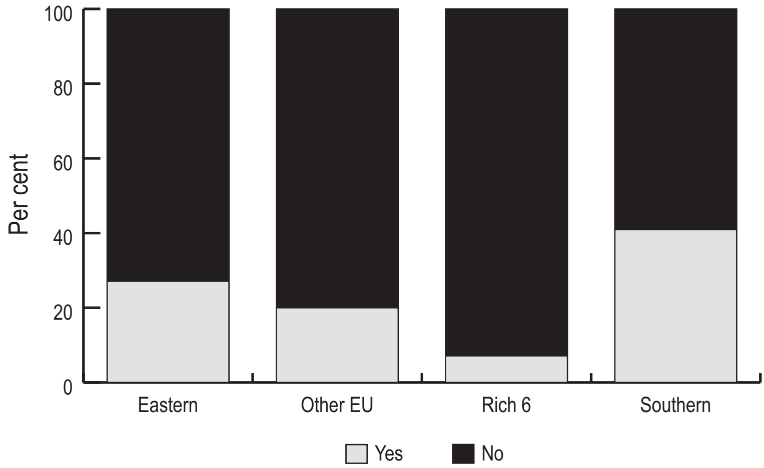


Table 10 Would prefer changes in the...
(per cent who found the process less than optimal)*

	Eastern	Other EU	Rich 6	Southern
Annual decision-making	23.73	25.00	36.84	**69.23**
Decision-making related to Financial Frameworks	**74.58**	50.00	**57.89**	**69.23**
Voting rules in the Council	23.73	37.50	42.11	**69.23**
Division of powers, the Council and the EP	33.90	**62.50**	45.95	15.38
Other	1.69	6.25	16.22	15.38

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

4 THE COUNTRY PAPERS

Country papers have been prepared on the expected positions during the EU budget review of eight EU Member States: Bulgaria, France, Germany, Hungary, Poland, Spain, Sweden and the UK.[19] The papers have been prepared by EU budget experts, in most cases by a national of the country analysed, in other cases by experts with specific contacts with and who have dealt with the EU budget-specific problems of the country in question for many years.

Our objective with the country papers was to provide detailed information on the preferences of these countries (considered as representing interests similar to some of the others) with regard to certain issues that will probably only arise during the budget review.

More specifically, with regard to the specific country in question, we were interested in the answers to the following questions:

1. Which issues of the EU budget debate have been stressed in the country's (recent) EU history?
2. What are the central and most pressing issues for the Government in the country in question in the next few years, in particular when the time comes to negotiate the future of the EU budget?
3. What is the explanation of the position bearing in mind the country's specific characteristics (e.g. large agricultural sector, high investments in R&D, very poor regions, influential pressure groups, etc)?
4. What is the country's position on an EU tax? If positive to an EU tax: which would be the preferable tax base(s)? If negative to an EU tax: would the country in question still like to reform the current system of own resources and, if so, what would be the nature of this reform?
5. Is the country positive, neutral, or opposed to the CAP? Why? What would be the nature of reform (if any)?
6. Is the country positive, neutral, or opposed to the system of abatements (corrections of payments to the EU budget). Why? What would be the position on a reform of the present system or on a general correction mechanism?
7. What are the country's future priorities with regard to structural, cohesion and growth oriented policies?

[19] The order of presentation is different from the alphabetical order: we begin with the net contributors (Germany, France, the UK and Sweden) and continue with the net beneficiaries (Spain, Poland, Hungary and Bulgaria); the order within both groups is determined by the EU accession date (in the case of the same accession date, by the size) of the countries.

8. Are there new policy areas that should be included into the budget according to the country? If yes; which areas?
9. What is a desirable size for the budget for the country in question?
10. What is the country's position on the EU budget with regard to further enlargements?

Of course, the importance of the above questions varies between countries. Therefore we did not expect a homogeneous set of country papers, just the opposite: the differences in the weighting of the issues tackled in the papers reflect to a great extent the different country positions.

4.1 Germany

Peter Becker

General approach

There is widespread consensus among German political and academic elites of the need to reform the European budget.[20] This consensus is based on at least three fundamental premises:

1. From a German perspective, the country's net payments to the EU budget are still too high. Germany has gone through a long period of recession with low rates of economic growth and high rates of unemployment. The German GDP (per capita in purchasing power standards) fell from 124% in 1997 to 113% in 2008 according to the latest statistics of Eurostat (the EU27 average is set to equal 100). Hence the German position as one of the biggest net payers does not correspond with the country's economic status. Moreover, the relative situation of Germany as net payer vis-à-vis other major and rich countries of the EU also speaks for the reduction of the German contributions.[21]
2. The focus of European spending policies should be overhauled. The added value for the European Union should become the central benchmark to decide European expenditure. In general, the focus of European expenditure should be innovation, research and development and hence have a clear orientation towards the Lisbon targets in order to secure Europe's competitiveness.
4. Basically the efficiency and effectiveness of the expenditure should be improved. It is not more money which is needed but a better use of the available resources.

Based on these three premises, the basic goals of the German Federal Government for the review negotiations seem to be crystal clear, even though there is no official government position for the moment (by mid-January 2008). The Federal Government has only agreed on a provisional, not very concrete or comprehensive position, comprising five points:[22]

[20] This paper owes very much information from interviews and informal talks to representatives of the German Foreign Ministry, the Federal Ministry of Finance, the Federal Ministry of Economics and Technology as well as from the German Länder, which provided a great deal of information on the basis of the maintenance of anonymity.

[21] In 2006, German net payments accounted for 0.27% of its GDP compared to the United Kingdom's level of just 0.11% GDP and France's net payments of 0.17% GDP.

[22] These points were made by the Head of the European Department in the Foreign Ministry, Peter Tempel, at the conference of the European Commission Representation in Berlin "Den Haushalt reformieren – Europa verändern", October 29, 2007 and at the workshop "Überprüfung des EU-Haushaltes" organised by the Bertelsmann-Stiftung in the Foreign Ministry, Berlin, January 24, 2008.

1. The concept of a European added value should become the focus point for a new Financial Framework. However, the Federal Government does not have a definition or a method at hand for defining this concept and measuring any added value.
2. Spending priorities should concentrate on common challenges; this obviously means a more future-oriented EU budget. Hence, a shifting of spending categories to allocative and modern policies, i.e. towards the objectives of the Lisbon Strategy. This strategy stands for more resources available for R&D, innovation and education as well as measures to enhance European competitiveness.
3. To guarantee budget discipline also for the EU budget the Federal Government demands more efficiency in spending policies. The German Government has always argued that it is neither acceptable nor comprehensible for the EU to demand national budget discipline and observance of the strict criteria of the European Stability and Growth Pact while at the same time urging net contributors to increase their contributions to the EU budget. The German answer to all calls for an increase of the volume of the European budget is hence to increase efficiency.
4. On the revenue side the German Federal Government asks for more equity in paying into the EU budget (Beitragsgerechtigkeit) or some kind of burden-sharing. The above-mentioned difference between the major Member States concerning their net payments in relation to GDP is seen as unjustified and has to be tackled. This position certainly includes the abolishing of all rebates, especially the British one.
5. Furthermore, the Federal Government asks to improve the efficiency of the system of own resources. This stance could indicate that Germany will come back to a proposal already discussed during the Agenda 2007 negotiations, namely to end the VAT resource which is very complicated and costly to calculate.

The official German position – with regard to the Commission's consultation paper – is expected to be formulated by mid April 2008. However, one should not expect a very detailed German position paper at the beginning of the debate. It seems that German policy is currently trying to avoid a premature and too detailed positioning at the opening of the debate. This negotiation tactic might be considered reasonable in order to "keep the powder dry" for the talks on the Financial Framework 2014–2020 or at least to wait and see what stance the other protagonists will take in the review talks, especially the United Kingdom and France who were directly addressed in the review clause.

Main Actors

Within the Federal Government, the Foreign Office is responsible for coordinating the German stance and decision-making. However, the Ministry of Finance will play a key role when it comes to real negotiations and the calculation of payments and returns. The Ministry of Economics will, of course, play an important role concerning the question of reforming the Structural and Cohesion Policy, and the Ministry of Agriculture will have the same responsibility for the CAP "health check". Nevertheless, as regards both these policies, the German Länder will play also a very significant role. The Länder are directly involved in the implementation and administration of the Structural Funds and the national co-financing of the programmes. Therefore, at least concerning the reform of the most important European spending policies the position of the German Länder has to be observed too.

The Länder began to discuss a common position regarding the review process already in the summer of 2007. Even earlier, in September 2006 the Länder Ministers of Finance had introduced an ad hoc working group to work out some initial position papers (see German Länder 2006; and 2007a).[23] However, the responsibility of putting together the various policy statements for a coherent Länder position lies with the Europaministerkonferenz, the conference of the Länder Ministers for European Affairs. The Prime Ministers of the Länder adopted the Länder stance with regard to the budget review on 6 March 2008.

Continuity with past budget reforms

The Federal Government's cornerstones for the review negotiations are in line with German policy during the Agenda 2000 and the Agenda 2007 negotiations. To predict the German stance with regard to the budget review 2008/2009, a closer look at prior German policy seems to be sensible.[24]

The complaints about German net payments, the unfavourable German "Nettozahlerposition" (net contributor position), have become a central component of German European policy debates, especially since the German economic and budgetary situation deteriorated as a consequence of German unification (see for example Stark 1996). In the mid-1990s, the former German Minister of Finance, Theo Waigel, spoke of a kind of "Gerechtigkeitslücke" (lack of justice) and asked for fair treatment. The former Red-Green Federal Government made its stance for the Agenda

[23] The ad hoc working group presented its first interim report already in March 2007.

[24] On the Agenda 2000 negotiations, see Lippert *et al*. (2001); on the Agenda 2007 negotiations, see Maurer and Schroff (2005).

2007 negotiations public by initiating the famous 1%-letter signed by the six net payers and addressed to the President of the European Commission in December 2003. Hence, the question of German net payments and the relation to other major Member States has been, since at least the mid-nineties, a decisive element of the German Federal Government's European policy.

With regard to European expenditure, however, the German stance has been and still is ambivalent. This second element of continuity grew out of the domestic discrepancies between West and East Germany. The new German Länder in the East are obviously poorer than the Länder in the West, and their policy to catch up is strongly dependent upon European Structural Funds. Whereas the Federal Government demands that the funds should concentrate on needy regions in Central and Eastern Europe, the new Länder have fought strongly to secure the funds and to introduce a new element: the phasing-out mechanism for regions affected by the statistical effect of enlargement (Wobben 2005).

With regard to a possible CAP reform, the differences in the production structures of East and West German farms are striking. Whereas the successors of the former GDR farming cooperatives are huge, the farms in the West and especially in the South of Germany are smaller and often family owned. The Commission's intention to cap the subsidies for big farms, for the first time, as already proposed during the Agenda 2000 negotiations, would primarily affect the farms in the poor regions of East Germany. The German aim to reform the CAP and to redirect European funds from agriculture to research is hence restricted by the need and the desire not to damage the agricultural sector in the new Länder.

Reform of European spending policies

At the centre of the debate to reform the EU's spending priorities in Germany we find the concept of European added value and hence the objective of shifting spending priorities to allocative policies and modernizing the EU budget. The concept of European added value means that common action is possible and necessary. Without yet having defined added value, this phrase should become the guiding principle for European expenditures. The Federal Government obviously expects the review process to deliver a common understanding or definition of the concept.

Hence, enhancing growth, employment and competitiveness by investing in research, innovation, education and training should receive prior attention. Nevertheless, the added-value debate is running the risk of being drowned by the net payer logic and status quo thinking. Additionally, as a specific

German understanding, the focus on European added value shall not touch or change the distribution of competencies between the European Union and the Member States. In line with its special focus on the concept of European added value, the Federal Government welcomes the new strategic orientation of the Cohesion Policy in the Lisbon Strategy. This allows and demands, especially from the old EU Member States, a determined focus and commitment to increase competitiveness, growth and employment. The concept of earmarking might also be used with the Structural Funds to tackle new challenges stemming from globalisation and climate change.

Germany is the fifth largest recipient of Structural Funds in the enlarged EU; for the current period 2007-2013 it will receive about EUR 26.3 billion from the EU. The majority of these funds, about EUR 15.5 billion, will flow to the Eastern German Länder. In his speech to the fourth Cohesion Forum in Brussels, the State Secretary in the German Ministry of Economics and Technology, Joachim Würmeling, argued that the central objective for the European funds was to concentrate further on the really poor and needy regions, and to orient them more strongly around the Lisbon targets. Cohesion Policy should find a balance between the objectives of reducing disparities and of promoting competitiveness (Würmeling 2007).

The position of the Federal Government is basically shared by the German Länder. In December the Prime Ministers of the Länder adopted a first official position paper, in which they answered the Commission's questions in the fourth Cohesion Report concerning the future of the Cohesion Policy (German Länder 2007b). After first having underlined that the European Union should not develop into a transfer union, the Länder described the European Structural Funds as an important component of the European integration process because the funds provide help to reduce socio-economic disparities within the EU. To improve the efficiency and the effectiveness of Cohesion Policy, the Länder suggested the use of more private resources. The Prime Ministers of the new Länder in Eastern Germany adopted their first position paper concerning the future of Cohesion Policy in June 2007 and a second paper in November 2007 (see German Länder 2007c). Their specific interest is to obtain some kind of transition period after 2014 to assist all regions that will lose their convergence objective status and regions affected by the so-called statistical effect, i.e. regions with a GDP only slightly above the threshold of 75% of the Community average because of the fact that, by enlarging the EU the average GDP has decreased.

The responsible Federal Ministry of Economics and Technology together with the Länder has already drawn up a common position and submitted this paper to the Commission within the framework of the public consultation on Cohesion Policy (German Federal Government and German Länder 2008). This common German position paper addressed the Commission's questions in the fourth Cohesion Report but avoided a statement concerning the financial provision of this expenditure heading. It stated that the debate on the future of Cohesion Policy should not act as a substitute for the budget review, nor predetermine the future EU budget.

Although the European Commission wants to separate the CAP health check from the comprehensive overhaul of the European budget, there is an obvious link between both reform processes. However, the German agricultural ministers and lobbies claim that the Financial Framework for the first pillar of the CAP, i.e. direct payments to farmers, are fixed until 2013 and will remain unchanged. The basic objectives of the Federal Government as regards CAP reform are, first, to provide planning security for the farmers and, second, to make European agriculture fit for the world markets.[25]

A central instrument to reform the CAP is certainly, from the German point of view, the national co-financing of direct payments. The amount of this national co-financing should then be deducted from the EU budget heading for direct payments. The Commission's proposal to cap direct payments according to farm size was rejected by the Federal Government with the justification that such capping would hit farms in East Germany, i.e. in regions with more than 20% unemployment, and would hence neither be helpful nor acceptable. Direct payments should remain for farms only and not for major firms in the pharmaceutical or the energy sectors which merely own agricultural soil.

Although German politicians accept that the second pillar of the CAP, rural development, will gain additional importance, Germany asks for more efficiency of modulation, i.e. the mechanism that transfers CAP funds from the first pillar of direct payments to the second pillar of rural development measures and a closer use of modulated funds for agricultural purposes. Additional modulation, as suggested by the Commission, would probably lead to a deterioration in the German balance of net payments and is hence rejected.

[25] The answer to the minor interpellation of the parliamentary group Bündnis 90/Die Grünen in the Deutscher Bundestag the Federal Government states that the health check shall not fundamentally reform the CAP but only modify some deficits of the 2003 CAP-reform. Questions on the Financial Framework should not be raised in the framework of the health check (Deutscher Bundestages 2008). See also the position paper of the German agricultural lobby group, Deutscher Bauernverband (Deutscher Bauernverband 2007).

Own resources and rebates

The Federal Government has not yet stated a concrete figure for the own resources ceiling. However, as signatory of the 1%-letter group from December 2003 and as one of the largest net payers, Germany will almost certainly stick to the actual ceiling of 1.24% of EU GNI and a rather small European budget, closer to the 1%-target than to the 1.24% ceiling. This position is shared by the Bundestag and the German Länder. It is relatively certain that all attempts to increase the own resources ceiling will be vetoed by Germany.

The desire to spend more money on the Lisbon objectives will certainly not mean a budget increase. It means, according to German understanding, shifting existing funds. The new challenges, listed in the Commission's consultation paper, should not automatically lead to an increase in financial resources. As already argued in the Agenda 2007 negotiations the German stance says no "on top" policy is needed, but a clear definition of spending priorities.

To reform the EU's own-resources system, it might be best to introduce a system that guarantees sharing the burden of financing the European Union more equally between the Member States and according to their relative wealth. In concrete terms, this stance means to scrap the British rebate and to calculate payments to the European budget according to GNP per capita in purchasing power standards. These German demands are strongly supported by the Bundestag and the Länder.

A more pragmatic, second best solution to tackle the huge German net payments and to ensure a more equal sharing of the burden is the introduction of a general correction mechanism. The Commission's proposal submitted in the last Agenda 2007 negotiations reverted to a German idea from the year 1997, the so-called "Kappungsmodell". According to this model, all national contributions over a fixed value of national GDP (at that time 0.3 or 0.4% of the GDP) should be capped. A general correction mechanism might become an instrument to abolish all abatements and to reduce the differences between the net payers.

Another proposal which the German Government might subscribe to is to completely abolish the VAT resource, something the Commission already proposed in the Agenda 2007 negotiations. This was because the source of funding has already been made inordinately complicated through a multitude of regulations, and only a handful of experts in the national finance ministries and the Directorate-General for Budget at the European Commission are able to calculate it. A complete abolition of this resource would hence represent a big step towards more transparency and efficiency, which are basically also German objectives.

European Tax

Germany is almost by tradition opposed to proposals to introduce a new autonomous own resource. Despite claims by the supporters of an EU tax, its opponents in the Federal Government, the Bundestag and the Länder say the European taxpayer would have an additional tax to pay on top of existing national, regional, and local taxes. So far, the discussion has been dominated by those forces that are sceptical about an autonomous own resource, like the members of national parliaments, who fear they would be held politically responsible for an increased tax burden on the citizens and would have to bear the costs alone in terms of poor election results or declining voter turnout.

The parties of the Grand Coalition, the CDU and the SPD, recently adopted new party programmes including chapters on European policy. It is striking that the new party programme of the German Social Democrats includes the option for a real own resource in the European Union, i.e. a European tax. However, the programme states that this long-term perspective needs a transparent, effective and democratically controlled European budget policy first (SPD 2007). This demand for a more targeted, efficient and future-oriented use of European resources is also included in the new party programme of the German Christian Democrats. However, the CDU opposes a European competence to introduce taxes (CDU 2007). The Liberal Opposition Party, the FDP, is strongly against a European tax (see for example FDP 2007), whereas the Greens are open to giving the EU some kind of own tax contribution, without calling this an EU tax (see The Greens 2007).

Budgetary process

All German actors basically share the view that the multiannual Financial Framework, also introduced into the new Treaty of Lisbon, is a proven instrument to guarantee a foreseeable and reliable European budget. However, some elements of flexibility are needed to break the inherent *status quo* thinking and to achieve a better balance between stability and flexibility.

4.2 France

Miklós Somai

According to the latest available and comparable data, France is the largest recipient of EU budget expenditure and the second largest contributor to EU budget revenue.[26] These facts in themselves might explain the intensity of French interest in budgetary issues but the issue lies elsewhere. Traditionally, France's net contribution to the common budget has been at a much more digestible level than those of its major partners (Germany and the UK), due to its large agricultural sector and the latter's important share in EU policies.

However, this comfortable situation began to change radically at about the turn of the millennium. Agenda 2000 gave a three quarter exemption to four Member States (Germany, Sweden, Austria and the Netherlands) in financing the British rebate and improved the control of the CAP by setting ceilings on both market and rural development expenditure. The European Summit of October 2002 in Brussels put an end to any further rise in CAP expenditure and, in spite of the then upcoming Eastern enlargements, froze the agricultural policy budget at the level decided for 2006. All these developments have meant that France's budgetary position has gradually deteriorated. The previous and slightly negative position has been aggravated since 2002, with a deficit of *c*. EUR 2-3 billion. When analysing the current EU budget discussion and the issues most often stressed in France, we should not forget this change in France's net budgetary position.

Issues stressed in recent history

This heading is based on the documentation of the series of debates that were conducted in France's Senate on the bill dealing with the participation of France in the 2008 EU budget (see Senate of France 2007), unless no other source is mentioned. In the France of today, the main topics stimulating a lot of interest related to the European budget are as follows:

1. GALILEO, the European satellite radio navigation system, together with the European Institute of Technology (EIT), which are integral parts of the revised Lisbon Strategy for growth and jobs.[27] In France, politicians set great store by these projects as they feel that the country stands a fair chance of making full use of these funds. They trust above all in

[26] In 2006, France received 13.9% of all EU budget expenditure ahead of Spain (13.2%) and contributed 16.3% to EU budget revenue (second after Germany, 20%) (European Commission 2007b).

[27] The aim of the establishment of the EIT is to reinforce Europe's capacity to transform education and research results into business opportunities. (European Commission 2008).

Galileo and expect it to compete with American GPS from 2013 on. So it is fully understandable if there is a tangible indignation in France's Senate about the three-year delay in launching Galileo and the unworthy debate on its funding.[28]

2. Trans-European Networks (TENs) continue to be at the forefront as to how the French view European integration. TENs will gather real momentum in the 2007-2013 Financial Framework (+88,8% in payments) and France will in all probability call for even more money to be raised for this item, if the CAP is to be cut back as a result of the 2008/2009 budget review.
3. The problem of the British rebate and that of *juste retour* as it is perceived by the French. Paris has always been very critical about the rebate and all sorts of caps and corrections in Member States' contributions, including the generalised correction mechanism proposed by the Commission in 2004 (European Commission 2004b).

French politicians and experts feel that the whole problem of *juste retour* is both meaningless and regrettable. For them, any calculation about what amounts of money are gained or lost by a Member State in European integration is totally misleading.[29] For them, Member States should contribute to the common budget according to their wealth and receive money according to the rules that follow from the common policies.[30]

However, as great as the reluctance of the French decision-makers towards the book-keeping approach of *juste retour* appears to be, there are also in France calculations about the financial position and balance of the country

[28] The total estimated amount for the full operational capability of Galileo is about EUR 3.4 billion for the period 2007-2013 of which EUR 2.4 billion remained to be found. Finally, after long discussions, late in 2007, an agreement became possible about covering the EUR 2.4 billion needed through unused Community funds, mainly those earmarked for the CAP. The compromise reached at a combined meeting of the ECOFIN Council and European Parliament was not supported by Germany that preferred financing via the ESA (European Space Agency) to ensure the ("*just*") return to German industries. (European Foundation 2007)

[29] e.g. as 90% of the budget revenue comes from the Member States, but funds allocated to them under the operational budget represent only 70% of the common budget expenses, all countries are on average net contributors (Senate of France 2007).

[30] In this regard, one cannot deny that France pays more to the common budget (16.3% of EU25 contributions in 2006), Germany almost equal to (20%), and the UK much less (12.1%) than, what would be directly proportional to their weight in EU25 wealth – which is 15.6% for France, 20.2% for Germany and 16.7% for the UK in terms of GDP. For Paris, the UK's current economic performance makes the rebate absolutely irrelevant.

within the European budget.[31] One of these calculations showed that if the current system of own resources (Council 2000) is not substituted by the proposals in the recent decision (Council 2007), France's net revenue from the CAP would from 2009 onwards amount to less than what the country would pay for the British rebate. As the new own resources decision reduces the rebate by EUR 10.5 billion for 2007–2013, the burden for France will be *c*. EUR 400 million less each year. Hence, the new decision will postpone the above-mentioned date but only for two years. From all this we can conclude that France's budgetary position will soon arrive at a point where Paris could – without any harm to its national finances – sacrifice the CAP in order to get rid of the UK rebate.

Naturally, to sacrifice the CAP would be a final and extreme solution as it represents approximately 75% of what France gets back from the European budget. However, times have changed – and they have changed a great deal. Between the 1950s and the beginning of the 21st century, agriculture as a share of GDP in France decreased from 10% to less than 2%, the number of farms decreased from 2.3 million to 590,000, out of which 62.2% (*c*. 370,000) are considered to be market-oriented commercial enterprises. Employment in the agricultural sector has decreased gradually from 6.2 million (31% of the active population) to 1.3 million (4.8%). Today, France's cultivable land is diminishing by 60 thousand hectares each year (Chalmin-Bureau 2007).[32]

French politicians and experts are well aware of the fact – and do not conceal this from the public or the farmers themselves – that the current system of the CAP cannot survive after 2013. Due to different reforms undertaken since 1992, most of today's agricultural subsidies take the form of decoupled direct payments, which actually work as life annuities for both farmers and landowners. In addition, as there is much inequality in the distribution of these life annuities among farms of different sizes and among tenants and landowners, the position of supporters of the CAP is becoming weaker and weaker against the position of those who want to see its renationalisation (Le Cacheux 2004).

The new French President, Nicolas Sarkozy, is one of those who is trying to find new justifications for maintaining the agricultural policy at the

[31] We should not forget that France pays the largest part of the British cheque of all the Member States (30.4% in 2003) ahead of Italy (25%) (Laffineur-Vinçon 2004)

[32] The website www.tranquileye.com/clock/ has two counters. The first one shows the estimated world population which is increasing by about three people a second by tracking both births and deaths. The second one shows that one hectare productive land (arable land, pasture and forest) is lost every 7.67 seconds.

European level. He feels that the agricultural sector in his country is well placed to meet the greatest challenges – demographic, social, alimentary and environmental, as well as challenges related to energy – of our century. For him, Europe has to set realistic aims and objectives for the CAP (see Sarkozy 20007):

1. to guarantee alimentary independence and the health security of food in Europe, since the latter should not depend on imports originating from regions which are continuously exposed to sanitary crises and/or climate risks;
2. to contribute to a worldwide food balance, since France – with exports of EUR 39.3 billion, a trade surplus of EUR 9 billion and a population of 1.6 million employed in agriculture, fishery and forestry – would like to make full use of its agro-potential;
3. to preserve rural territories, since only agriculture is able to maintain the vitality of the countryside;
4. to fight climate change and to protect the environment, for there are at least three ways agriculture can reduce the effects of global warming:
   a. by producing raw materials for the bio-fuel industry;
   b. by exploiting the biomass;
   c. by focusing on green chemistry: paper made of hemp, plastic prepared from potato starch, solvent from sunflower.[33]

All these options could give a new orientation and a new legitimacy to the CAP. With such changes the CAP's image in the eyes of European consumers and taxpayers might improve and there would be better reason to support it.

However, there is one issue on which the current French Government will not compromise and that is community preference. President Sarkozy has made it clear that he will never accept a new WTO agreement that would harm his country's interests. As regards developing countries he insists on reciprocity, balance and community preference and he is ready to fight against environmental, social, fiscal and monetary dumping (Sarkozy 2007).

[33] Green chemistry, also called sustainable chemistry, is a chemical philosophy encouraging the design of products and processes that reduce or eliminate the use and generation of hazardous substances (Source: Wikipedia). e.g. paper made of hemp lasts many times longer than if made of wood. Paper made of hemp fibre has a life span of centuries, even millennia – compared to 25 to 80 years for tree pulp paper.

In his fight, the President is backed by an institution that mirrors a wide range of interests in French society: the Economic and Social Council. In a recent report the Council reaffirmed its opinion that all products imported to the Single Market must meet the same requirements as regards their production (environmental, animal welfare etc.) as those produced within the Union (CES 2007).

There are certain other topics for which no detailed information is available concerning the French position. We only know that France would like to pay more attention to and spend more money on them in the future. These topics are as follows:

1. education and youth – with a view to increase the mobility of not only students but also apprentices and young employees;
2. R&D, energy, vocational training, innovation, competitiveness – all in accordance with the Lisbon Strategy;
3. security and justice, Eurojust, Europol, a European FBI, immigration, a single judicial and juridical area – regarding the fact that criminals themselves already created their Europe long ago.

Finally, we list here some objections from the opposition (leftwing) parties:

1. cohesion and solidarity, especially in favour of the new Member States. There are fears among French MPs about the consequences of spending relatively less money with more and more countries in the EU. They think that by refusing a concerted effort to enable the new Member States to fill the economic, social and environmental gap which separates them from the old ones, these countries are condemned to the alternative of social dumping;
2. the adequate size for the European budget as regards enlargements and the Lisbon Agenda. A certain typical double discourse on the part of Member States representatives can be discerned, which consists of fixing high-pitched objectives as far as cohesion, growth, employment, sustainable development and even European citizenship are concerned and then refuting all these ambitions in budgetary practice.[34]
3. the democratic deficit concerning the voting circus regarding the ratification of agreements on common budget issues that national parliaments are limited to. MPs have to debate on something they can neither modify nor reject without pushing the EU into deep a political crisis.

[34] First some Member States draw up a minimum budget (the British vision on Europe), then others accept a higher bid on condition that the rule of *juste retour* is respected (Germany's vision on Europe) (Nicole BRICQ, soc. MP).

As for when the time comes to negotiate the issues above, it is obvious from the parliamentary debate that Paris is looking forward to 1 July, the day France will take over the six-month EU Presidency from Slovenia. There are three main and closely interlinked areas in which Paris wishes to take great steps forwards:

1. How to best design the expenditure side of the common budget to face the challenges stemming from globalisation: what orientation of the common policies could best reflect the Union's priorities?[35]
2. How to reform the own resources system to meet the above-mentioned common policies requirements. To be sure, Paris will not miss the opportunity of putting pressure on the rebate during its Presidency.
3. How to reform the CAP in order to satisfy farmers and, at the same time, to gain consumers'/taxpayers' support (Senate of France 2007).

Regarding EU tax

It would not be an exaggeration to say that, in France, the issue of a possible European tax has not until quite recently come to the forefront of the debate on the future of the common budget. There are several reasons for this:

1. The introduction of a European tax cannot be justified for financial reasons, as the current own resources system ensures the financing of the common budget perfectly, thanks to the predominance of the completely elastic GNI-based national contributions.
2. Many national MPs consider the European tax a threat, in that a traditional parliamentary competence may be transferred to the hands of bureaucrats in Brussels. This fear is not alleviated through the reinforcement of the powers of the European Parliament, as the latter has, in France, an anecdotal reputation of being irresponsible as concerns common budget expenditure issues.
3. As a European tax would be perceived as "a new tax", citizens appear unenthusiastic about it. As a French professor bitterly noted (Brehon 2004, p.174): "Le système actuel est certes opaque mais il est indolore... l'opposition à l'impôt européen est extrêmement simple... La défense de l'impôt européen est difficile, subtile, exigeantte. La bataille de la communication est sans doute perdue d'avance."[36]

[35] This point comes straight from the review clause of the Interinstitutional Agreement of 17 May 2006, ensuring that the Commission will report on all aspects of the community budget before the end of 2009.

[36] "The current system is certainly opaque but painless… the opposition to the European tax is simple,… while its defence is difficult, subtle and demanding. The battle of the communication is surely lost in advance."

4. Finally, and this really represents the true obstacle to the introduction of a European tax: any change to the current own resources system would only be possible at present through the almost illusory unlocking of the "three bolts": a decision of the Council alone (instead of a joint decision of the Council and the European Parliament), unanimity (instead of a qualified majority) and approval by the national parliaments.

After years of hesitation the concerns regarding the possibly painful consequences of the EU's Eastern enlargement gave fresh impetus to work out new ways of introducing a European tax. The French understand that they cannot remain only a minor net contributor to the budget as earlier, but that they will have to take a proper share of the costs of EU enlargement. Their net balance will amount to -0.37% of their GNI on average for the 2007-2013 Financial Framework, as compared to -0.12% in 2003 and -0.05% in 2000 (Senate of France 2007 and European Commission 2007b). Naturally, when inventing alternatives to an EU tax, they try to come up with methods that will harm their national interests as little as possible. The ideas are listed here in chronological order:

1. The first idea was a tax on companies, based on the logic that companies benefit the most from the enlarged Single Market. Another reason behind the idea was that the sharp fiscal competition among Member States might be restricted. In order for this to be possible, there would certainly be a need to make progress in designing a common tax base and finding an applicable minimum rate for companies (Laffineur-Vinçon 2004).
2. In late 2004, as a first reaction to the Commission's report on "Financing the European Union",[37] where three options (fiscal resources based on energy consumption, VAT and corporate income) were mentioned, Institut français des relations internationales (IFRI) devoted an important share of the report to the future of the EU budget. In this book a Sorbonne professor, Nicolas-Jean Brehon, put forward two rather radical ideas (see Brehon 2004):
   a. as all opportunities have to be taken to reduce Europe's dependence on imported fossil energy, a tax on the consumption of energy and/or the oil imports could be a track to be explored;
   a. with a view to fighting the delocalisation of economic activities outside Europe, why not imagine a profit tax on relocated activities?

[37] This report was published in July 2004 and constituted the general review of the own resources system the Commission had been called upon to undertake by the own resources decision of the Council of the year 2000 (European Commission 2004b).

3. Finally, we should also reveal the standpoint of the Economic and Social Council presented every second year in the form of reports on the financing of the EU:
   a. in its 2005 report, leftwing trade unions supported a harmonised tax on companies as it would introduce obstacles to fiscal dumping but rejected the possibility of basing the European tax on VAT because of its regressive character and because, relative to income, it affects poor households more than rich ones;
   b. in its 2007 report, published in late November, the Council abandoned solutions related to a European tax and suggested that, customs apart, Member States' contributions to the common budget should be based on their national wealth alone, as expressed in GNI. The rate of the contribution would be the same for all members and fixed for five years so that it matches the periodicity of the Commission and the European Parliament's mandates. This system would be simple and easy to understand for EU citizens. There would be no more rebate or corrections of any type but if a Member State does not accept the mechanism, an opt out option would be available (CES 2007).[38]

Paris knows that there is no tax that would cover all the conditions set out by the Commission (i.e. autonomy, stability, sufficiency, visibility, equity, etc.), so there is a pragmatic reason for proposing a GNI-based own resources system with which France might possibly be better off compared to any other complicated and correction-ridden one.

Structural and cohesion policies

France has never been a great beneficiary of the Structural and Cohesion Policy (with a mere 6-7% of the funds allocated between 2000-2006, against 12-13% for Germany or Italy) and will see its share halved in the current 2007-2013 Financial Framework. Hence, it is not surprising if Paris refers to studies – ordered by EU institutions – that point at the inefficient use of these funds in the old EU Member States, especially under Objective 1.[39] Another criticism about structural policies is that while gaps in

[38] The report mentions the UK by name as an example of how to opt out of European initiatives, e.g. on justice, the single currency or the Social Charter (CES 2007).

[39] According to the studies, in Spain GDP in 1999 is estimated to have been about 1% higher than it would have been without intervention, while in Greece over 2% higher (European Parliament 2005). Total GDP in Portugal in the period 2000-06 would have been 3.5% higher than it would have been without Community support; for Greece the figure is 2.2%, while in the Mezzogiorno it is 1.7%, in eastern Germany 1.6%, and in Spain 1.1%. (European Commission 2003) A report which was carried out to inform the French Prime Minister at the time even claimed that if Spain had not been granted any resources from the Structural Funds from 1994 and 1999, its GDP would have been only 0.6% less in 2010. (Laffineur-Vinçon 2004).

development between EU Member States have decreased, those between regions within countries have not. Apparently the richest regions of the poorest countries could benefit from these policies (Fayolle and Lecuyer 2000).

France's interests regarding Structural Funds can be grouped as follows:

1. to concentrate funds available under Objective 1 to the poorest regions of the EU27, i.e. mainly to new Member States and the outermost regions of the old ones (including French overseas departments);
2. to bring into balance the different Objectives, i.e. to increase funds for Objectives 2 and 3 which are more within reach for France than Objective 1 (Laffineur and Vinçon 2004);
3. to broaden the competence of the funds to new areas such as actions in times of natural and environmental disasters, terrorist attacks, industrial calamities, sanitary problems, conflagrations, etc. (CES 2007).

Size of the budget – further enlargement – national budget situation

In this chapter we have to remind readers that at the end of 2003, France was one of the Member States who in a joint letter called on the Commission to cap EU expenditures to 1% of EU GNI. These countries justified their action by claiming that the need for national budgetary discipline required of them by the Stability and Growth Pact forced their hand.

However, no more than two months after being elected Sarkozy implied he would revoke the deal his predecessor had made at a meeting in Berlin three months prior, when finance ministers from all 27 EU members had promised to balance their budgets by 2010. Politicians in power explain the change with the time the government needs to introduce reforms and tackle high levels of unemployment (Euractiv 2007).

From the above, but also bearing in mind the lasting budgetary problems and the prevailing political mood of the country, we assume that in the medium-term, France would neither like to boost the EU budget to go above 1% of GNI, nor wish to continue with further enlargements.

4.3 The UK

Miklós Somai

According to the latest available and comparable data, the United Kingdom is the fifth largest recipient of EU budget expenditure and – after the rebate – the fourth largest contributor to EU budget revenue. In 2006, the UK received EUR 8.29 billion (i.e. 8.51% of all EU budget expenditure) and contributed EUR 12.4 billion (i.e. 12.1%) to EU budget revenue. As for net contributions, the UK is the second largest contributor with EUR 4.11 billion after Germany (EUR 8.26 billion). Without the rebate, the UK would be the largest net contributor to the EU budget: in 2006 it would have paid EUR 9.33 billion more to the budget than it received.[40]

If we look at operating budgetary balances – in which neither administrative expenditure nor traditional own resources are included – we arrive at somewhat lower net balances: the net contribution – after the rebate – was EUR 2.14 billion (0.11% of GNI) for the UK, 6.33 billion (0.27%) for Germany, 3.02 billion (0.17%) for France, and 2.59 billion (0.47%) for the Netherlands. Without the rebate, the UK's net contribution would have been of EUR 7.37 billion (0.38% in terms of GNI) for the year 2006 (European Commission 2007b).

The rebate was negotiated and obtained by the then UK Prime Minister Margaret Thatcher at Fontainebleau in 1984. It was introduced a year later as an integral part of the own resources system. Since then the correction mechanism has been modified on several occasions in order to compensate for changes in EU budget financing but the basic principle has remained the same: the UK is reimbursed by 66 per cent of the budgetary imbalance calculated as the difference between its share in EU expenditure allocated to Member States and the total VAT-based and GNI-based own resources payments.

However, this relatively comfortable situation for the UK began to change during the negotiations on the current 2007-2013 Financial Framework. The rebate has come under pressure from several members and for several reasons.

1. Circumstances prevailing at the time of its introduction have changed,
   a. the UK's relative prosperity is now at the top of the range within the EU, in sharp contrast to the situation in 1984;

[40] The net contributions of the other Member States were as follows: EUR 8.26 billion for Germany, 3.94 billion for the Netherlands and 3.14 billion for France (European Commission 2007b).

   b. the net balances of several other Member States have been and are expected to remain of a comparable order of magnitude to that of the UK (see European Commission 2004a).
2. The UK has been attacked,
   a. for clinging too much on to the rebate, which was expected to rise by 50% in size due to enlargement;
   b. for making new Member States, who are much poorer than the EU average, pay for part of its rebate.

In the negotiations that culminated at the European Summit in December 2005, the British were trying to put the rebate on stake against radical cuts in CAP spending. However, as the latter had been frozen until 2013 after a decision taken at the European Summit of October 2002, they had to be content with only obtaining a commitment to the budget review 2008/2009. Moreover, and for the first time in the history of the rebate, the UK Prime Minister agreed that his country would, after a phasing-in period between 2009 and 2011, fully participate in financing of the costs of enlargement – bar the CAP market expenditure.[41] At the same time this implied a cut in the rebate that would not be higher than EUR 10.5 billion during the period 2007-2013.

When we take a look at the current discussion on the EU budget and the most heavily emphasised issues in the UK, we should not forget the above-mentioned historical change in the calculation of the rebate and the uncertainty about the future of the whole correction mechanism.

Issues emphasised in recent history

Currently in the UK, the main topics related to the European budget that are stimulating interest are as follows:

1. The rebate comes in first place but we will deal with it later on in this study. We only note here that since the European Summit in December 2005, the opposition has attacked the Labour Government and Tony Blair heavily for being weak as they agreed to let the rebate undergo changes in relation to the Eastern enlargement (House of Commons 2008).
   – As reflected in the general desire of the political elite to hold down public expenditure, there is no appetite for any major increase in total EU expenditure in real terms. The British want value for their money

[41] Direct payments, market-related expenditure and the part of rural development expenditure originating from the European Agricultural Guidance and Guarantee Fund (EAGGF), Guarantee Section (Council 2005).

and consider that significant parts of the EU budget simply do not fulfil this basic requirement, notably the CAP market expenditure; the fact that 60 per cent of structural and cohesion funding expenditure still goes to the rich Member States; and the huge share of the administration costs in the general budget.

2. As for the CAP, the major argument about spending has always centred on its share in the EU budget. Although its costs were brought down from over 70% to a current 35%[42] due to successive reforms, the British Government thinks there is a strong case for reducing the proportion further. It would like to see further cuts in traditional expenditure on product support and on direct payments made to farmers and further strengthening of the second pillar, i.e. rural development and environmental policy.
3. With reductions in CAP expenditure there would be room for greater spending elsewhere. Candidates for this "elsewhere" are research and development and other programmes to improve the EU's economic competitiveness. That would also leave more resources to support the Common Foreign and Security Policy (CFSP) (Franklin 2007).
4. A much discussed topic is the role of co-financing, in other words programmes paid for partly by the EU budget and partly by the Member States themselves. The UK favours co-financing since it would limit the EU's regional programmes to the poorer countries, leaving the richer ones to run and finance their own programmes if they so wish.
5. Saving money on the CAP and Cohesion Policy would also pave the way for further enlargements. As the British have traditionally been inclined to opt for widening rather than deepening the Community, which stems from their view on European integration, it is not surprising that they consider that the future accession of Turkey should add force to arguments in favour of shifting the pattern of expenditure as they suggest.
3. Finally, as for the ways the EU should be financed, London thinks that the GNI contributions are straightforward to administer and generally reckoned to be fair. Thus, in order to simplify the own resources system, the whole of the budget should be funded by national contribution based on GNI shares, or at least all except the import duties and levies.

The EU tax

Most British politicians are of the opinion that the main method of funding the EU, i.e. national contributions based on Member States' GNI (currently

[42] As far as market measures are concerned.

about 70 per cent of the budget revenue) is fair, cheap to administer and easy to understand. In other words, making it a unique own resource seems to be a logical option. However, for some experts both on the Continent and in the UK it would not be sufficiently *communautaire* and hence they would like to give the EU its own tax – most likely with some flexibility for the budget authority (i.e. the Council and the European Parliament) to decide the rate – but the British Government has always been firmly against any proposals for an EU tax to finance the common budget and believes that taxation should remain a matter for Member States to determine on a national basis (House of Commons 2004).

In their report of March 2007, the House of Lords' EU Committee dismissed calls for the funding of the European Union to be shifted towards direct taxation and asserted that raising a direct tax on citizens would have no advantages over the GNI-based system. The Committee also commented on the two other revenue elements. As regards the traditional own resources, they saw no need for change to the current regime. They were less supportive of the levy on Member States' VAT base and criticised it as being expensive to administer and confusing for the public (House of Lords 2007a). Furthermore, even if an intellectual case could be made for an EU tax, levied for example on companies or on energy, it would be strongly resisted by politicians and would hardly make the EU any more popular in the UK (Franklin 2007).

The CAP and its reform

In spite of the fact that one can find a lot of landowners among politicians, the CAP has traditionally had a fairly bad image in their circles. You need only to open the proceedings of the sessions of the House of Lords or that of the House of Commons to find exaggerated expressions like "… other elements of the budget, such as the common agricultural policy with its obscene overspending and all the waste and extravagance…" (Ian Davidson, MP, Labour and Co-operative Party) and "…if we were to make poverty history, we needed to make the excesses of the common agricultural policy history…" (Philip Hammond, MP, Conservative) (House of Commons 2008).

UK politicians like to calculate, or refer to studies made by international organisations like the OECD, in order to demonstrate how much the CAP costs the country. It is often emphasised that the costs imply not only the taxes required to fund payments to farmers but also the overall effect on the economy from lost trade, lower competition, higher prices and other distortions (Openeurope 2005). Even after the benefits for farmers have been taken into account, the cost of the CAP to the UK economy has been estimated at some 0.5 per cent of GDP (HM Treasury 2004).

For London, the 2003 CAP reform was a first step in the right direction, in that more than 80 per cent of direct aid to farmers has now been decoupled from production and there has been a shift from pillar one to pillar two spending. However, London wants to see a much more radical CAP reform in order to face the economic, social, rural, environmental, energy and other challenges in the years to come.

When looking at the details of this reform, we have to take into account that the food and drink manufacturing industry is the single largest manufacturing sector in the UK. This sector has a turnover of GBP 70 billion, accounting for 15% of the total manufacturing sector and employing some 470,000 people, i.e. 13% of the manufacturing workforce of the country (FDF 2007). This means that the sector has its say in the UK's strategy on the future of the CAP.

According to information gathered from different sources, the British would like to see:

1. even more money shifted to the second pillar and spent on food safety and science, health and well-being, environment and rural development;
2. agricultural raw materials competitively priced, safe and of high quality;
3. full decoupling in order to push farmers in the direction of market orientation;
4. the ending of intervention in the dairy and cereal markets;
5. the abolishment of set-aside;
6. no capping to be introduced since,
   a. the UK has larger than average production entities;
   b. capping would go against the abolition of set-aside and further decoupling;
7. modulation to be compulsory rather than voluntary because of the risk of distorting the marketplaces between Member States (House of Lords 2007b and 2007c; and House of Commons 2008).

However, what best reflects the UK's interests in the matter can be found in the answer from the Economic Secretary of the Treasury given last summer to a question during an examination of witnesses in the House of Lords, inquiring about the best way of spending money from the common budget (House of Lords 2007c, p. 34):

> … we are perfectly happy for payments to be made to agricultural farmers but that does not necessarily mean that they have to be paid through the EC budget…

This means that London does not exclude the re-nationalisation of the CAP, which would have implications for the rationale of the UK rebate and if, and only if, this happens, then the case for the rebate would change.

The rebate

When returning from the European Summit in December 2005, Tony Blair faced heavy criticism from the opposition and parts of the UK press for giving up part of the rebate (by some 20%). The Prime Minister defended himself by telling the press that had the UK walked away from the compromise deal it "would have wrecked" London's relations with the new Member States and the then new German Government (BBC News 2005). Since then Blair's movement concerning the UK budget rebate has never ceased to be a topic for parliamentary debates (see House of Commons 2008).

The British know the rebate will once again come under attack at the time of the preparatory discussions for the upcoming budget review, given that the UK has one of the highest GNI per capita in the EU. The UK will argue that the rebate is needed as long as the imbalance in its net budget position remains excessive. France, whose net contribution (after the rebate) in recent years has been roughly the same as the UK's, will undoubtedly argue that if CAP market spending is cut the rebate must go. This implies the risk of a negotiation deadlock unless a new approach is found.

For London, the safest solution would be a generalised correction mechanism based on relative prosperity and applied to all Member States, not just the UK. The advantage of such a mechanism would be that policies need not be distorted in order to correct imbalances, e.g. wealthier Member States may then stop receiving payments from the Structural Funds. The system would entail a structured redistribution, where the richer a Member State is, the higher its net contribution to the budget would be. A generalised correction mechanism would also have a very important practical benefit for the UK, as it would no longer have to fight a single-handed battle against the rest of the Union (Franklin 2007).

The size of the budget

Concerning the size of the budget, the Government set out some principles which will form the basis of its negotiating position rather than clarifying their view in terms of what the overall ceiling of the budget should be for the next Financial Framework,. These principles are as follows:

1. the EU should only intervene where it is evidently more beneficial than if individual actions are taken solely by Member States;
2. where EU level action is appropriate, it should be proportionate, flexible and use the most suitable policy means – which may or may not be spending;
3. for all EU spending there should be the highest level of financial management and administration.

With these principles in mind and based on the UK's top priority for the budget review, i.e. that all EU expenditure must demonstrate value for money, the Treasury has started a process within the UK of analysing the kind of "fit for purposeness" of all Community spending in order to develop a UK vision for expenditure and future financing (House of Lords 2007c).[43]

In order to have an idea of the size of the EU budget that London considers to be acceptable after 2013, we have but to recall the UK Government's opinion on most of the CAP expenditure and the money going from the Structural Funds to the richer Member States. Hence, London would hardly accept an upper limit of EU budget expenditure that is higher than one per cent of GNI.

Structural and Cohesion Funds

Being a net contributor to the Structural and Cohesion Funds, the UK considers that all additional receipts from a widening of the funds would only come at a net cost to the British taxpayer. It would also reduce the amount of potential funding available for domestic regional policy. The UK regions are relatively prosperous and therefore of a lower priority for European funding than other regions. The great bulk of the money spent on activities in the UK's regional policy comes from the national budget.[44] If all interventions were domestically financed, the remaining bureaucracy that derives from the EU regulatory regime could be eliminated.

Thus, a continuation of the Structural and Cohesion Funds programmes in the EU15 would only prolong the inefficient recycling of funds among the

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[43] Unfortunately, no information is yet available on the HM Treasury website about this "fit for purposeness" programme.

[44] The only region in the UK which might qualify for being funded under Objective 1 (i.e. with a GDP per capita of less than 75% of the EU27 average) is Cornwall and the Isles of Scilly (House of Commons 2004).

richer Member States. These Member States should in the future finance their own regional policy initiatives and EU support should be refocused to the poorest Member States.[45] However, as the 4% cap in the Structural and Cohesion Funds is restricted to poor Member States, London believes that the Structural and Cohesion Policy can best be addressed by a budget that is significantly lower than the current 0.45% of EU GDP.

As far as the technical side is concerned, the British want to see radical reform. They think that EU regional policy should be substantially devolved and decentralised. In the UK, there is an ongoing process of devolving decision-making from Whitehall to the regional and sub-regional level (BERR 2008).

Other issues

Once the negotiations on the EU budget review commences, the UK Government will undoubtedly argue that the current budget is poorly designed to meet the challenges that the EU is facing in the 21st century; fundamental parts of the budget simply do not represent value for money. We have already mentioned the case of CAP market measures and the fact that money from the Structural and Cohesion Funds go to richer Member States. However, there are other topics as well and London will:

1. continue to scrutinise closely the form and transparency of how the Galileo programme is funded. It firmly refutes that the ceilings in the Financial Frameworks should be raised in order to fund the project. Opinions of politicians and experts diverge on the perceived benefits of Galileo in the UK;
2. recommend that EU funding for the EIT be reduced to a level commensurate with its gradual phased implementation;[46]
3. urge that the numerous specialised and decentralised EU agencies, with tasks of legal, technical and/or scientific nature, are closely examined in order to ensure that they produce value for money;[47]

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[45] Note the link between the advocated reforms in the field of structural and agricultural policies. For the lost structural funding richer members could be compensated through increased transfers from the CAP rural development budget.

[46] Both Galileo and EIT are seen in London as a cuckoo in the EU budget, in that they may produce unforeseen surpluses as the timetable of their realisation is not correctly drawn up or transparent enough. The British see in EIT a European MIT (Massachusetts Institute of Technology) but consider they already have one: Cambridge.

[47] e.g. European Maritime Safety Agency (EMSA), European Defence Agency (EDA), European Police Office (EUROPOL), and Community Fisheries Control Agency (CFCA).

4. initiate a "Gershon type review" as part of the 2008/2009 budget review, for it thinks that staffing levels in EU institutions are rising without a corresponding rise in output. It considers that the public sector is no different from private sector companies in that it too has to raise its productivity (House of Lords 2007c).[48]

In London's view the European Commission, if it is brave and imaginative, could together with the UK approach promote a simpler, more transparent, fair and defensible budget system. However, if the Commission is too cautious there is no chance of the Council reaching an agreement on any radical budget reform – and another good opportunity will have been lost (Franklin 2007).

[48] The Gershon review was a survey of efficiency of the UK public sector conducted in 2004-05 by Sir Peter Gershon, appointed by Gordon Brown then Chancellor of the Exchequer, to examine operations across all public services and make recommendations regarding expenditure and efficiency. This includes the gross reduction of more than 84,000 civil service posts and the relocation of 20,000 public sector posts away from London and the South East by 2010. By mid-2007, it resulted in more than £20 billion of annual efficiency gains, gross workforce reduction of over 79,000 posts, and 13,300 posts relocated (HM Treasury 2007).

4.4 Sweden

Jonas Eriksson

Introduction and disposition[49]

It should be pointed out from the outset that the EU budget review of 2008/2009 is an important political priority for the current Swedish Government. The review as such is viewed as an opportunity to at long last fundamentally reform the expenditure side of the EU's budget; particularly to substantially reduce the combined costs of the CAP and Cohesion Policy.

In order to provide an explanation to the Swedish attitude vis-à-vis the EU budget and why the review is a priority we will first briefly examine the history of Swedish EU membership. We will then discuss the position that has resulted from this and try to analyse its content and the Swedish priorities for the review.

Briefly on history

Regarding Sweden's relation to EU expenditures, there are a number of factors that stand out, the first of which is agriculture. Swedish agricultural policy was until the late 1980s predominantly based on price support and contained measures such as import levies to protect domestic production and export subsidies to facilitate the export of *inter alia* livestock products despite higher Swedish production costs. In other words, the policy resembled the CAP and was also motivated basically using the same arguments about securing autarky and farmers' incomes (Nalin 2000).

In 1989 the then Social Democratic Government proposed a reform (Swedish Government 1989) which implied that all internal market regulations and export subsidies would be abolished during a transition period that would last until 1996. Agricultural policy would no longer prioritise farmers' incomes; instead, the overall guiding principle would be environmental considerations. The external border protection would remain

[49] The Swedish Government's current position on the EU budget review has foremost been retrieved from speeches and articles by the Minister for EU Affairs Cecilia Malmström, above all the speeches given at the SIEPS Annual Conference on 26 October 2007 (SIEPS 2007) and before the Committee on European Union Affairs and the Committee on Finance in the Swedish Parliament on 6 December 2007 (Swedish Parliament 2007a). However, it should be noted that this represents at the time of writing a preliminary position: many aspects lack detailed answers, partly because the Government are in a "listening phase" and partly because the four parties in Government (the Alliance) need to coordinate their common position. The Swedish Government will submit its discussion paper to the Commission on 1 April and the Swedish Parliament will submit its paper on 9 April. It is assumed that the current Alliance Government will remain in power until the review has been completed, as the next national parliamentary elections will take place in September 2010.

unchanged, but it was presumed that the GATT negotiations would reduce them anyway. Thus, the reform undoubtedly marked a radical change of policy (Nalin 2000).[50]

Accession to the EU in 1995 meant that both the reform process as such and the objectives of Swedish agricultural policy had to be reversed. Although the reform was not fully implemented at the time of accession, quite a number of things had been accomplished. For example, internal market regulations were removed and producer prices fell in real terms by more than 30 per cent, food prices by 17 per cent. Furthermore, close to 400,000 hectares of land were restructured (*c*. 80,000 permanently) and the number of farms fell by more than 7,000, a decrease of *c*. 7 per cent, between the years 1989-1993 (quoted in Rabinowicz 2004).[51] In light of the broad political agreement prior to (and after) accession on agricultural policy,[52] the reversed reform process explain to a great extent why the CAP has such an extraordinarily bad reputation in Sweden.

The redistribution bias caused by the CAP is further reinforced by the Cohesion Policy, where much support goes to regions in the richer EU Member States. This is important to bear in mind since during the accession negotiations it became clear that the Swedish regions were too rich to qualify for Objective 1 funding. After temporary measures had been introduced in the first years of membership, a new eligibility criterion based on population density was invented (see Tarschys 2003). However, no measure would have changed the fact that Sweden since accession has been a net contributor to the EU budget and it is not surprising that Swedish policy-makers have questioned the impact of the EU's Structural and Cohesion Policy on numerous occasions (see for example Swedish Parliament 2007a). At the same time this view enjoys support from a number of independent studies that have found no positive effects (or even negative effects) in the recipient countries.

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[50] It has been argued that the reform was made possible due to changing alliances in the Swedish Parliament in the 1980s: after having relied on the party with the closest links to Swedish farmers, the Centre Party, for a long time the Social Democrats sought closer ties with the Liberal Party on for example tax reform. However, when the reform had been pushed through Parliament even the Centre Party was on board (see Rabinowicz 2004 for an overview and analysis of the reform; see also Nalin 2000).

[51] The share of the working population employed in the agricultural sector in Sweden is currently down to ca two per cent (see Statistics Sweden 2007a).

[52] In an influential Government report from 1997 (Swedish Government 1997) the need for CAP reform was motivated by a number factors: the CAP's objectives and values were seen as not being in tune with contemporary reality; the policy was deemed too complex, lacking internal coherence and resulting in too high consumer prices and budget costs; the developing countries were at a disadvantage; and, finally, CAP reform would make enlargement of the EU easier to accomplish.

Having said all of the above, the focus on net balances seems logical. It has consequently provided the EU budget with an additional number of exceptions, in the case of Sweden a reduction in the VAT contribution to 0.10% of the VAT base (as opposed to 0.30%); a rebate on the UK's rebate; and last but not least, a gross reduction in its annual GNI contribution, which during the current Financial Framework will amount to EUR 150 million a year (in 2004 prices). These exceptions are of course not unique in that they are granted only to Sweden – they apply also to the Netherlands and, with the exception of an extra rebate, Austria and Germany – but they certainly show the importance of "getting your money back".

Another factor that arguably has had an effect on the Swedish position is public opinion. EU scepticism in Sweden has been widespread, which to an extent has been a backlash from unrealistic statements made by advocates of EU membership prior to accession. However, the close result in the referendum on EU membership (52 against 48 per cent) and the no-vote in the referendum on the euro in 2003 (42 against 55.9 per cent) are only two of many indicators of substantial domestic resistance both prior to and after accession. Moreover, the split between those sceptical and those positive towards the integration process has been visible particularly within the party in power until 2006, the Social Democrats.[53] It could be argued that EU scepticism has contributed to the strong focus on budget restraint in the domestic EU debate, but to an even greater extent to the position taken on EU revenue (see below).

Having said this, EU scepticism has in the last couple of years weakened somewhat. The public has become more positive towards EU membership (see for example Statistics Sweden 2007b) and the election of a rightwing Government in 2006 implied that Sweden might become more proactive in European Union affairs. This may in turn lead to further convergence between the Swedish position on the one hand, and the position of the mightier players in the EU on the other, and Stockholm has already proved itself active with regard to coalition-building.[54]

Sweden's priorities – a preliminary assessment

The new rightwing Government has said that it wants to be "at the inner core of the EU". The meaning of this phrase, according to statements by Prime Minister Reinfeldt, is that Sweden will increase its presence in the

[53] The split was particularly visible before the Swedish EMU referendum in 2003, where three ministers took active part in the vote no the the euro campaign.

[54] The letter of 2003 from the six net contributors to the then European Commission President Romano Prodi was a significant step in that direction.

European cooperation process wherever it is of importance; that she will take on responsibility for issues that are not necessarily solely of interest to Swedish voters; and that the Government will promote the EU domestically (see Swedish Parliament 2006; and 2007b). Whether this will have a real impact at the EU level remains to be seen. A more proactive attitude towards the Union and its policies might at the very least mean that Swedish policy-makers will argue their case more effectively. However, if Sweden declared its position on the review earlier than other Member States, it rather served as an indication of the stability of the Swedish position than a result that followed from a more proactive Government. A closer scrutiny of the positioning vis-à-vis the EU budget reveals that the incumbent Government does not differ in substance from the previous Government.

For example, on 14 June 2005 at a hearing before the Committee on European Union Affairs the then Prime Minister Göran Persson stated that the aim of the Swedish Government in the up-coming 2007-2013 budget negotiations would be to secure a reasonable Swedish net position while at the same time creating a more modern and forward-looking EU budget. Above all, the gist of his speech corresponds well with the priority shifts that the current Government is striving to achieve (Swedish Parliament 2005a; see also below).

Moreover, the word "modern" reappears frequently in EU budget debates, not least in the speeches delivered on 26 October and 6 December 2007 by the Minister for EU Affairs, where she maintained that there should be improved "coherence in order to avoid counteraction between different policy areas" (SIEPS 2007). This applies, first, to the CAP in relation to development and trade policies and, second, to the Cohesion Policy in relation to the Lisbon Strategy.

Thus, a more pro-active Government notwithstanding – and regardless of which party or parties are in power – reducing CAP expenditure is and will continue to be high on the agenda.[55] This implies a complete phasing-out of price support and export subsidies already during the current 2007-2013 Financial Framework. While no time frame exists as yet for phasing-out 1st pillar support altogether, it is indeed the long-term solution Swedish policy-makers will strive to achieve. Regarding the Structural Funds, on the other hand, there is room for solidarity with the ten CEEC Member States and the future candidates for membership whose GDP per capita are lagging behind, but just as with the former Government the solidarity essentially stops there.

[55] The most telling example is perhaps the political pamphlet published in 2004 by one of the Government parties. The title of the pamphlet would translate into English as "Tear down the wall of shame, abolish the EU's agricultural policy!" (Liberal Party 2004).

Turning now to future priorities, the case that is being made is that a number of well-established criteria should guide policy decisions: subsidiarity, European added value, proportionality and sound financial management. According to this line of reasoning the result would be a future-oriented budget that would only contain European public goods. From what is known at the time of writing the current position represents a shift away from headings 1b and 2 (Cohesion Policy and the CAP) to the three headings 1a, 3 and 4 (Competitiveness; Citizenship, Freedom, Security and Justice; and The European Union as a Global Partner).[56] At the time of writing the following three areas have been mentioned explicitly (SIEPS 2007; and Swedish Parliament 2007a):

1. Under heading 1a priority is given to research and development based on excellence; investment in cross-border infrastructure; and educational exchange programmes. Moreover, research funded by the EU's Framework Programme is considered to be an opportunity to find ways to combat climate change.
2. Under heading 3 (issues related to Justice and Home Affairs) priority is given to co-operation on fighting cross-border organised crime and joint preventive action with regard to trafficking, drugs and terrorism. It would also comprise asylum and migration (e.g. information systems).[57]
3. Under heading 4, priority would be given to safeguarding peace, democracy and human rights. Included here are also the European Neighbourhood Policy and development and humanitarian aid.

While these points have been mentioned explicitly in terms of re-prioritisation within the current EU budget, other areas that are included in the overall priorities for the Swedish 2009 EU Presidency imply additional costs.[58] This is particularly true for the further enlargement of the Union,

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[56] Again, these shifts correspond well with the former Government's position during the Agenda 2007 negotiations, as do the few details that exist at the time of writing; see e.g. Swedish Parliament (2005a; and 2005b) and Swedish Government (2005).

[57] One should also note that it will be up to the Swedish EU Presidency to bring the Hague Programme (2005-2010) to a close.

[58] The priorities are, first, to combat climate change (the successor to the Kyoto Protocol will be negotiated in Copenhagen in the autumn of 2009, i.e. during the Swedish EU Presidency) and establish a secure supply of energy; second, to increase Sweden and Europe's economic growth, foremost to continually develop the Single Market, implement the Services Directive, counteract protectionist tendencies and work for better regulation; third, to conclude negotiations on the Hague Programme and contribute to a more open EU regarding third country migration; fourth, to promote the Baltic Sea region as an engine for growth whilst combating pollution in the region; and fifth, to promote EU enlargement and work for a more efficient and effective Common Foreign and Security Policy. The final details of the Presidency programme will be worked out in the autumn of 2008 (Swedish Government 2007b; 2008).

on which there is consensus among all parties in the Swedish Parliament. Even though Turkish accession need not be as expensive as one might be led to believe (see e.g. Gros 2005) it will nevertheless represent a future budgetary burden that needs to be taken into account. Obviously, additional countries imply additional costs.

While it is easy for an economist to agree with several points that have been made above,[59] it is also possible to identify other areas where there might be a need for centralisation, whether it be now or in the future. Some of them are either implicitly or explicitly covered by the Commission's Communication; others are of an entirely different magnitude. As far as economic theory is concerned, the subsidiarity principle boils down to fiscal federalism and political economy considerations, which may point in a very different direction indeed depending on where one chooses to put the emphasis. This is particularly the case with regard to revenue, which will be discussed below.

It should be pointed out that, as the Swedish Government has not committed itself to a fixed figure yet but has committed itself strongly to EU budget restraint (see e.g. Swedish Government 2007a), it would be reasonable to assume that Swedish policy-makers will look kindly on a budget that is smaller than it is today. The method chosen in 1988 and 1992, where the budget was allowed to increase in order to make room for additional funding, has never been viewed as an option. Any extra room needed for funding new policy areas would have to be the result of CAP and Cohesion Policy reform.

This brings us to the view taken on the funding of the Union. The need for revenue reform per se *is* acknowledged but in essence this means that Sweden, like many other countries, would opt for a system that is based entirely on GNI. Discussions with civil servants in the Ministry for Finance reveal that the net balance issue is viewed as being a consequence of the redistribution bias in the EU budget and that a budget with pure European public goods would alleviate the *juste retour* problem.

However, it is clear that there will be EU expenditures that will not flow to all Member States despite a pure public goods budget. One very obvious example is the management of the EU's eastern and southern borders, which certainly benefits all Member States – i.e. there is true European added value. Hence, it is also reasonable that the Eastern and Southern Member States, who bear the costs for managing these borders, are com-

[59] For a concurring view, see Figueira (2006).

pensated for their efforts via the EU budget. Another example is the desire to support research based on excellence, which raises the issue of the Swedish net position, namely that it tends to be a disadvantage for a number of regions predominantly placed in the Southern and CEEC Member States (and a clear advantage for Member States such as Sweden). Several other examples can easily be found and it is fairly obvious that the net balances issue will continue to haunt the budget, whichever way the expenditure side is reformed and whatever expenditure criteria one employs. On the other hand, one could certainly argue that the *severity* of the *juste retour* problem would be much reduced if the redistribution bias was toned down.

The proposed solution to correct remaining imbalances, based on earlier positions, would be a generalised correction mechanism (GCM). However, regardless of whether the Swedish Government would pursue such an option it seems to be a non-issue since few other Member States support it.[60] Whether the current Swedish Government would seriously consider an EU tax is as far as we are able to assess today another non-issue, since there seems to be agreement among a majority of Member States that the future financing of the EU budget should go through a GNI-based system. Suffice it to say, however, that there is no support among the parties in the Swedish Parliament in favour of an EU tax, regardless of the tax base chosen.

This said, this stance disregards the fact that taxes may be used for creating incentives in the economy. One of the most obvious examples would be climate change, which is a cross-border externality and, as mentioned, rates as a top priority in Stockholm. Taxing emissions raises regionally arbitrary resources while creating incentives to reduce emissions. However, any EU tax would be seen as a significant step towards a full-blown federation and in view of Swedish public opinion on EU membership and the Swedish view on the EU as being primarily a United Europe of States, rather than a United States of Europe, arguments such as these will fall on deaf ears.

Finally, on institutional reform there is even less to be said. The Minister for EU Affairs has mentioned in her speeches (see SIEPS 2007 and Swedish Parliament 2007a) the negative reports from the Court of Auditors and expressed a desire to improve management and budgetary control. As is the case with Germany's position on the budget review (see section 4.1. on Germany) Sweden would like to see improvements as regards the effi-

[60] The request for a GCM was abandoned by the former Government during the Agenda 2007 negotiations when it became clear that Sweden, Germany and the Netherlands were the only countries that would support it.

ciency and effectiveness of EU expenditures. Even though she was in her reply to a direct question cautiously positive to the idea that the Financial Frameworks should be reduced to five years and aligned with the European Parliament and the Commission's respective terms of office (SIEPS 2007), it is important to point out that it is at the moment unclear whether all of her Government colleagues concur with this statement.

4.5 Spain

Fernando Alonso

Spain and the EU budget – historical background

Since its accession to the European Union on 1 January 1986, Spain has experienced significant changes to its economic and social structure. EU policies have greatly influenced these processes, bringing about definite economic stimuli and traumatic transformation in its economic fabric. Examples of the former include transport infrastructure, which has been crucial in winning global competitiveness for the economy. Among the latter, structural measures are linked to the agricultural and fisheries sectors which have meant that cattle have been sacrificed, vines uprooted and ships scrapped, causing a marked contraction of the primary sector.

Before joining the EEC, Spain was treated as a preferential partner, which allowed it to sell much of its production within the Community with minimal restrictions. At the time, EEC budgets were dominated by the CAP. This was one of Spain's main reasons for joining: to benefit from agricultural subsidies and the 200-mile fishing zone. However, soon after joining the EEC, the debate about structural aid began. With Helmut Kohl's support, new budgetary allocations were put in place and Spain secured considerable benefits at the negotiations. This situation persisted and then intensified even more with the first multi-year budgets (the result of political engineering by Jacques Delors). The budgetary goals for agriculture were thus amply exceeded and as it became one of the main beneficiaries of the CAP, Spain was showered with millions of ECUs. The result of this was the putting into place of major transport infrastructure and environmental projects and renewed regional development policies. Thanks to the expansion of those budgetary allocations, where its relative importance was greater, Spain achieved very positive balances (1-1.5% of GDP) for nearly twenty years.

As a result, the country has undergone a complete modernisation. This can be seen in the Eurobarometer statistics, where citizens and businesses express their opinion of European institutions. Few countries have a higher level of euro-optimists than Spain.

In general terms, Spaniards perceive the EU budget as being spent efficiently. Cost controls are effective and the projects approved are generally viable and contribute to the country's development. Investment in infrastructure is especially well received by the population, which considers it basic for growth and competitiveness. Research and development expenditure is less perceptible, because competitive growth is slower to appear, and scientific and technological advances or those related to the creation of human capital are less obvious to the man in the street than a road or an airport.

The 2007-2013 Financial Framework

Negotiations on the 2007-2013 Financial Framework took place in a very negative political and economic context. On the one hand, the existing economic crisis in the euro zone has been translated into immense pressure on the EU budget, where the total amount has suffered substantial cuts (Doménech 2000). The pressures exerted on France and Germany to meet the fiscal criteria contained in the Stability and Growth Pact have made these Member States argue their contributions to the Community budget as justification for the criteria (Alonso and Cendejas 2006). Meeting the Maastricht criteria has been used by some Member States to justify their budget deficits. From the Spanish perspective, these statements are inaccurate, since each country's balance in the budget only reflects that country's initial situation and is not an assessment of its macroeconomic stability. On the other hand, Spain's spectacular economic growth in the past decade, along with the recent Eastern European enlargement, have brought it up to near the EU average in terms of income. These three effects combined explain the reduction of Spain's positive balance over the next few years. However, Spain's success in the negotiations is clear: its net balance for the following period will still be positive; the Cohesion Funds will be extended to account for the "statistical effect of enlargement"; Spain's least developed regions will continue to receive funds (although these will decrease gradually); the EU will put more effort into controlling migration; and, finally, a technology fund has been created specifically for Spain, a first in EU history.

The cap on the European budget is set by six of its net contributors (Austria, France, Germany, the Netherlands, Sweden and the UK), which in a letter in 2003 to Romano Prodi, the then President of the European Commission, expressed their wishes that in the draft of the budget proposals for the 2007-2013 period the Commission would lower the spending limit to 1% of EU GNI (European Commission 2004d). The proposal to reduce the EU spending ceiling to around 1% of EU GNI reduces discussion about Europe's future to a "continuist" negotiation aimed at agreeing on a "zero-sum game": thus, if nothing changed, Union enlargement would be solved by gradually relocating all the money received by Southern Europe to the new Central and Eastern European Member States. In this scenario, disparities (measured as net balances) will converge to zero until revenues and payments are balanced for most countries. In any case, something is not working when the three richest Member States, Luxemburg, Ireland and Denmark, are not net contributors to the budget. None of the countries that contribute most to the budget do so in order to waste their resources: they recover more than their budget imbalance thanks to the Single Market, through their business revenue and the income from external investments in other Member States. Spain's monthly trade deficit with the euro zone equals the total annual amount received from the EU budget. Therefore, any reduction in the balances constitutes a competitive advantage for the net contributors to the budget. The building of a great, strong Europe cannot be achieved through restrictive budget valuations but quite the opposite: it must be based on cooperation that provides all parties with common benefits. If a new EU is to be under construction by 2013, reforms and negotiations must begin in 2008-2009. A reform of this importance cannot be improvised.

Future challenges

Once the great challenges of the Single Market – the arrival of the euro and the enlargement to the East – have been overcome, the EU must decide what direction to take. Many of the available options are incompatible with the current EU budgetary scheme. At the time, Delors managed to rescue the European institutions from paralysis with his proposal for multiyear budgets. If new challenges in economic and social policies are to be met, perhaps now is the time to give a new impetus to budget reforms. Underpinning all this is the need for Member States to "transfer policies" to the European Union. The problem is that if nation-states transfer part of their policies to regions through administrative decentralisation processes, and on the other hand pass powers on to transnational bodies such as the European Commission, they would become pointless, meaning a large number of employees would have to be kept in the ministries with no apparent duties. In the long term this would give rise to a series of reforms that Member States are probably not ready to embark on.

CAP reform

The Spanish position is not clear about this subject. Consumers ask questions about the higher prices in agricultural products, but producers are organized and pressure like a lobby. Trends for new budgetary perspectives within the European budget are mainly defined by a decrease in agricultural transfers linked to the European Agricultural Guidance and Guarantee Fund (EAGGF) and an increase in measures that focus on research, development and innovation policies, on which the Lisbon Strategy is based. Spain's situation in this regard is among the worst of all Member

States. In basic terms, the proportion of GDP set aside for research, development and innovation is around 1%, which is a third of the target set in Lisbon for the year 2010. Only countries such as Sweden, Denmark or Finland get anywhere near this target. In Spain, greater participation of the private sector is needed.

EU citizens, especially in those countries that are less involved in the CAP, are not in favour of its expenditure. France and Spain, together with Italy and Greece, are the main beneficiaries. However, there are also countries like Denmark or Ireland whose payments per capita are not below those of the above-mentioned states. There are three main arguments against the CAP: first, the percentage of budget expenditure is disproportionate to the impact and importance of the sector in the economy and employment. As a justification for this, its defenders indicate the necessary balance between urban and rural environments. The second argument is related to the policy of single prices within the European market. European consumers are tired of paying prices for products that double or treble the international price. They pay for the budget and then they pay again through their shopping basket. There are many who support opening up borders so that the end consumer can benefit. Third, pressure from international institutions such as the World Trade Organization, which continue to attack quotas (countries with preferential agreements) and import duties that vary with international prices. The reform of the CAP, which was stalled for many years, was approved in December 2003 and since then, given how the criteria have been changed, is starting to be put into practice as partial reforms are approved in each Common Market Organization according to the agreed calendars. This change in criteria (instead of financing production, subsidy is linked to agricultural activity) has given rise to transfers from guarantee EAGGF to guidance EAGGF, retaining around a third of total EU budget resources, despite its gradual decrease for years. In view of this situation, there are questions to be asked about the *equilibrium* between the CAP and the Structural Funds, the main accounts in the European Budget.

Structural and Cohesion Policy

Spain and its citizens understand the transfer of the Structural Funds to eastern Europe, but they argue that the structural situation of some Spanish regions is the same as a few years ago. It justifies a reduction, but not the elimination of them. The Structural Funds and the Cohesion Fund have evolved ever since they were created. Backward regions, or those with low income levels and extreme conditions, which hinder their market entrance and competitiveness, were the initial beneficiaries. This concentrated ever larger parts of the budget on poor regions in order to re-launch their development. On the other hand, there was pressure from critics of these funds and, as a result, the Structural Funds were extended to additional regions in order to benefit more and more people (María-Dolores 2002). A consequence of this has been a smaller geographical impact (Bradley *et al.* 2003*)*, the outcome of which is that the best results in terms of development have been achieved by the regions with medium and medium to high levels of development where funds were invested. This is due to the greater financial capacity of public and private entities to co-finance projects. The worst results were achieved in each Member States' least developed regions, where differences with the corresponding rich regions have not changed, and have even widened.

The effectiveness of cohesion policies depends on their level of geographical concentration. Little, widely spread aid reduces its efficiency dramatically. The discussion on this point will be about the profitability of the funds allocation, not about their necessity. This has been the policy followed in the 2007-2013 budget and thus the impact indices of these policies are likely to diminish. When the goal is for more than a third of the EU's population and regions to receive these funds, either the amount must be increased, or their impact on development and wealth indicators will be minimal. This is backed by Spain's experience. A minimum concentration level is required for aid to be effective. Otherwise the bias is towards cosmetic programmes, which do not impact on structures. The funds offer more leverage for governmental decision-taking, which sometimes means greater effectiveness.

EU tax and enlargement

In Spain, the two major political parties are currently the only ones with any possibility of forming a government (Vidal 2007). Probably neither of them would radically oppose a European tax. All of them want more Europe and they understand it is not possible without more economic resources. In some recent cases, the the tax increases seen in Spain have been on indirect taxation. The socialist PSOE would probably demand that the tax revenues were focused on social and employment policy, and would try to link it to taxpayer's income levels. At the moment, 65% of the citizens' income tax payments go to the State and 35% to the Autonomous Regional Communities. Five per cent could be set aside for the EU. Higher incomes would contribute more and lower incomes less. The conservative Partido Popular, on the other hand, would not oppose such a tax, as long as it made businesses more competitive (R&D), created jobs and was not used for covering management and bureaucracy costs. The conditions it would set would be that the creation of the tax would have to be neutral and would not increase total fiscal pressure. Instead of higher direct taxes, the tendency in Spain is to reduce direct taxes and increase VAT or special taxes (fuels, tobbacco, alcohol). If a new European special tax were not created and the current tax system were reformed, Spain would be more likely to increase contributions depending on GDP.

Spaniards would not be prepared to accept a new tax to finance the EU budget if the main goal is to pay for enlargement. They consider that enlargement costs have already been met by Spain giving up its positive balance (Misse 2005). Gains from enlargement have gone mainly to countries such as Germany, Italy, France, the Netherlands or Austria, but despite that, in budgetary terms, it is countries such as Spain, Portugal or Greece which have seen their budgetary position change most radically. Market and business benefits from the Eastern enlargement, especially for Germany, have not been matched with a larger contribution to the budget, but rather a smaller one than in previous years. The cost of enlargement has therefore been asymmetric. As a result, Spaniards do not want to have anything to do with further enlargements. What politicians say is another matter. The inclusion of the former Yugoslav republics is assumed, although there is a more than justified fear of insecurity caused by some members of Kosovar-Albanian paramilitary groups that frequently carry out extremely violent robberies and other crimes in Spanish homes. Spaniards favour developing good neighbourhood policies with possible future candidates – including Turkey or the Ukraine – that will give them access to the Single Market with equal opportunities, but that will not allow them to take part in the budget or in European decision-making.

It seems certain that enlargement is going to cost EUR 150 billion just through the Structural and Cohesion Funds (Inforegio 2004), but it cannot be assumed that Spain is going to pay 40 billion of this because, as mentioned earlier, the reduction in the Spanish balance stems from the combined effects of natural convergence in a large number of regions and from Spain's GNP growth in recent years (de la Fuente 2002). It is therefore simplistic and mistaken to assert that the decrease in Spain's balance means that Spain is going to contribute disproportionately to financing enlargement.

Rebates

In general, the ideas behind the British rebate and the correction mechanisms are negatively received by Spaniards. They consider that income should be the main procedure for contributing to the budget and that this in itself generates an automatic process that penalises the richest and benefits the poorest.

Potential new expenditure headings

The Spanish position is not clear on this subject, but policy-makers want to transfer the allocation of some old expenditure headings to new expenditure headings. Despite the fact that very few respondents in most opinion polls actually propose concrete measures for introducing new budgetary allocations, there is talk of the need for allocations for industrial policy and for social and employment policy. New allocations for an EU border policy are also mentioned and some even propose transferring national defence budgets to the EU to create a Euroforce and a Europol that can fight international organised crime efficiently. There is also the idea of unifying the diplomatic corps under the EU flag.

Specific positions on some specific issues

The following opinions are a summary of judgments made by a group of policy-makers from the Spanish Ministry of Economy. Some are high-ranking civil servants with posts of great responsibility in regional policy and in relation to the design of yearly and multi-year programmes for the Structural and Cohesion Funds (Alonso 2007), but most of them are from European Community Studies Association-Spain (ECSA Spain). They are researchers and academics who have given their opinion on these ideas (ECSA Spain annual meeting 2008), and the following general conclusions have been made from their replies:

There is no consensus regarding the desirable size of the budget. The answers can be grouped into three profiles:

1. *Euro-sceptics*: Those who distrust the efficiency and effectiveness of the EU budget; its decision-making procedures; and, in general, the ideas related to budgetary design. These respondents want the budget to be maintained at its current size or even decreased to around 0.75% of GNP and they do not consider any new tax to be necessary. They also want the British rebate scrapped and CAP assignments to be reduced as far as possible and are against introducing taxation related to the EU budget even in the long-term.
2. "*Continuists*": Those who perceive European policies positively and consider that no major changes to the budget are necessary, either in allocations or in policy priorities. However, several trends are visible in this group. In general they are all in favour of:
   a. reducing the CAP to a minimum;
   b. moderate increases in the total EU budget;
   c. establishing budgetary transfers between allocations, especially from agriculture to those relating to social and employment policy, or to competitiveness based on the knowledge society;

d. reforming the British rebate and abolishing privileges;
e. establishing a common collection tax in the mid to long-term rather than the short term.

3. *Euro-optimists*: Those who are positive about creating a new EU tax, who believe that the European Union must progress beyond what has been already achieved and who think that a series of policies designed to benefit economically from a single market and a single currency is not enough. This group would favour a short-term introduction of a tax, even before the current budget expires. They intend to reduce CAP allocations and also privileges stemming from the British rebate. They even consider the possibility of going ahead without the UK, using the reinforced majorities method. They are also not against measures such as opt-out clauses.

There is agreement that dismantling the CAP would be less traumatic for Spain than the rest of the EU. Spain is prepared to exchange CAP funds for funds to increase R&D and to improve competitiveness and employment. Demand for European employment policies is related to the degrading of work conditions affecting a growing number of employees, whose situation regarding temporary contracts, exploitation, working conditions and salaries is deteriorating. This has social consequences that are becoming more and more visible.

There are also positive views on a European eco-tax penalising those who contaminate most and using its resources to improve the environment.

Citizenship policies are perceived by the public as a waste of funds and as pro-European propaganda on the part of the European institutions. Their measures do not reach the majority of the population. Something similar happens with EU advertising. Liberty, security and justice are perceived as a national matter, something on which cooperation can be sought, nothing more. Regarding aid to less developed countries (as a global partner), amounts should be limited, and if the budget increases, they should not remain at 5%, but be reduced, keeping the total current sum constant. Administration costs should be frozen at the current figure of 5%, limiting future amounts. The Spanish perception of the CFSP is that it is an unreal reality. Mr. Solana has been trying for decades to assert his role as the single European voice in the world. Despite that, his initiatives are frequently crushed by the Commission. Member States defend their foreign policies zealously. The United Kingdom's dependent relationship with the US and the US relationship with Israel limit the EU's foreign relations, which are frequently subject to the leanings of each state and its government.

Institutional issues

The budgetary decision process must give more weight to the European Parliament and less to the Council. Veto power should be "partial" and not complete, restricting the number of vetoes to a number of countries and it should be possible to modify certain assignments depending on whether it is in the Council or the Parliament. The budgetary procedure has a clear democratic deficit. It is perceived by citizens as haggling between heads of state and government, something like a Turkish bazaar. If an agreement is to be reached, positions have to be adopted such as that of Germany, with a cap or limit on financing, or that of Poland, whose negotiating flexibility is nil.

4.6 Poland

Anna Wisniewski

An official position paper with regard to the EU budget review targeted for 2008/2009 has not yet been presented in Poland. However, it has been lately announced by the Office of the Committee for European Integration that it will be ready by spring 2008. The thinking process, therefore, has started. There are expert opinions, as well as statements from decision-makers that can serve as a guide to understand the Polish view and the preferences of Warsaw. The press release published concerning the preparation of the official position of Warsaw outlined the main issues that will be priorities for Poland (Dowgielewicz 2008). Regarding the debate on the future shape of the budget, Warsaw considers the issue to be very much connected to the view concerning the future of the European Union. There are two main priorities outlined, the first being the principle of solidarity both with regard to Single Market issues as well as foreign politics. The other area is the issue of new instruments within the European Neighbourhood Policy, expressing the interest of Poland in keeping close relations with Ukraine. As for own resources, it is still unclear whether Warsaw would be ready to support the introduction of a European tax instead of the present system based on national contributions. There is, on the other hand, a document on the Polish vision concerning the CAP (Ministerstwo Rolnictwa 2007). This shows as well, that besides France, Poland has been and will be an active participant in the debate on CAP reform, and is determined to keep up the main structure though ready to accept constructive changes.

The present paper is based mainly on expertise, and only partly on official documents. The aim of the analysis is to try to gain a closer understanding of the facts and circumstances that influence Polish motives during the negotiations.

General priorities

First, the enlargement process proved to be a clear success story for the European Union. Poland experienced higher growth rates, disinflation, new export impetus and dynamic investment possibilities after accession. The net beneficiary position vis-à-vis the EU budget, the development possibilities arising from the Structural Funds, as well as the new working opportunities in other Member States all reassured the average Polish citizen of the merits of EU membership (Bielska 2007). The Polish opinion is based upon these positive experiences of the first few years of membership. For Poland as a “converging” country, the EU has been a solution to her problems and not part of the problem as for many countries in Europe. It would therefore be in the interest of Poland to keep this present integration model based on solidarity (both in the sense of an economic integration model and in foreign policy) and the free market.

However, there are visible threats to this model. The enlargement has been a solution in some areas of the European integration process but a source of deep crisis in others. The fear of immigration from Eastern Europe, delocalisation of Western companies and the unsolved structural problems in the euro zone resulted in the weakening of the social legitimisation of the Union and this has changed the view of the EU in the old Member States (Serafin 2007). In drawing up the position paper on the future shape of the EU budget and the EU in general, therefore, according to the expert at the Office of the Committee for European Integration Poland should show empathy, an understanding of the reasons behind this clear division in the basic view of the EU in the "new" and the "old" Member States.

Second, the review of the EU budget can act as a catalyst in the debate concerning the future model of the European Union. The question today is whether to follow a model of "liberal Europe" or "social Europe". The problems of the losers of liberalisation, e.g. aging industries and the least qualified workers, must also be addressed at the EU level. Increasing the level of innovation by raising R&D expenditures would help the EU to alleviate the challenges of globalisation and to balance competitiveness. However, more R&D expenditures do not answer the fears of those who lose out on globalisation. At the EU level, a more active approach is needed to handle the conflict between the supporters of liberalisation and supporters of protectionism. An answer could be, following the example of the European Globalisation Adjustment Fund, to address the problems of certain social groups that lose out due to the globalisation processes or because of the deepening of integration within the EU. Especially important will be the discussions on the Cohesion Policy instruments, particularly the Regional Competitiveness and Employment objective. The European Social Fund partly serves and should serve even more as an instrument for compensating outplacement.

Third, the Polish view supports these new instruments and accepts new expenditure items. The EU faces new challenges such as rising energy prices, demographic changes, how to achieve sustainable development and how to alleviate the effects of globalisation. During the debate, therefore, the question has to be answered as to i) which challenges the EU should try to find an answer to and ii) how the current EU policies can be adjusted in order to comply with these political priorities. The proper question when analysing the current EU instruments should be what we want to change in different policies so that they can better respond to our needs.

Fourth, the Polish position will be formed in line with the view that it is important to deal with the new challenges facing the European Union. On the other hand, they also express their view that the budgetary expenditures for the new policy instruments should not cause the abolishment or decrease of expenditures for the present policies, especially not Cohesion for Growth and Employment and the CAP.

Fifth, Poland considers all expenditure items currently financed from the EU budget important. The question of whether to abolish or keep the present policies in the EU should be raised in connection with analysing the value added that the financing of different policies at the European level brings. The value added test might have a twin-track approach. i) It would be reasonable to carry out a subsidiarity test in order to check whether Member States would be able to finance and conduct certain policies. In this context we can observe that, on the one hand, less affluent Member States would be unable to finance the Cohesion Policy or the CAP from their own national budgets. On the other hand, the European budget has only secondary importance for expenditure on competitiveness (R&D, education) or external relations. ii) It would be reasonable to assess the value added of EU spending and compliance with the EU's political priorities. It has to be emphasised that the EU budget finances tasks that appear at Community level, which aim at both deepening the integration in the Single Market and are there for the sake of all Member States. The income and expenditure sides of the budget, therefore, do not express national interests; they serve (or should serve) as a means for objectives that must be realised at the Community level.

Sixth, the principle of solidarity should not cease to function within the Cohesion Policy. Warsaw finds it important that new policy instruments should be worked out in connection with the need for competitiveness, such as for the research and development objectives. On the other hand, Warsaw finds it essential that these new instruments do not enlarge the development gap between less developed and more developed Member States and regions in the EU.

Seventh, the EU budget review is a very important step in the debate concerning the future shape of Europe. However, it would also be important to tackle the issue of the budget resources during the debate. The budget itself represents less than 1% of the EU GNI. In spite of the fact that the number of Member States increased, the size of the budget decreased in relative terms. Poland would find a further reduction of the budget unacceptable, most of the expert opinions find that the ideal size of the budget would be between 1.25 and 1.5 per cent of EU GNI. This would mean a relatively small increase compared to the present size. The new tasks of the EU have to be defined but sufficient means to tackle these tasks must be raised as well.

Eighth, Polish experts find the present own resources system to be too dependent on national contributions. As a result, Member States perceive the EU budget through *juste retour* lenses. Paradoxically, a GNI-based own resources system leads to the introduction of numerous correction mechanisms and, as a consequence, the burden of financing the EU budget is shared unevenly among Member States. According to the Deloitte Consulting study for the European Parliament's Committee on Budgets (European Parliament 2007), in 2005 Portugal contributed 0.96% of its GDP to the EU budget while the UK contributed only 0.54% of its GDP (TOR excluded). The average contribution for the EU25 was equal to 0.8% of GDP. There is a risk that a GNI-based system leads to a situation where Member States' relative contributions are inversely correlated with national wealth. The experts agree that the introduction of a genuine own resource would make the EU budget more autonomous. However, the official position is yet unknown as to whether Poland would support the introduction of such an own resource and what kind of resource they have in mind. This having been said, concerning the payment position of Member States, Poland is adamant in emphasising that all corrections should be abolished.

Ninth and finally, it is widely held among experts in Poland that the discussions on the expenditure and revenue of the EU budget are unavoidably drifting towards *juste retour* logic and a political deadlock. Separation of the discussion on the revenue side would be therefore more constructive. Greater autonomy for the own resources system would facilitate future discussion and would allow for the necessary financial development of new European policies. Giving up the narrow national net payment positions discussion is a necessary pre-condition for the development of the EU's horizontal issues.

The future of the Cohesion Policy

The enlargement of the EU with the less developed Eastern European countries caused tensions well before the first wave of enlargement in 2004. Two main policy instruments were basically under attack, one of them being EU Cohesion Policy, which represents the second largest part in the EU budget with a 35 per cent share in 2007-2013, or EUR 308 billion in total.[61] Half of this sum is devoted to the new Member States, whose level of development measured by GDP per capita remains well under the EU average. Every fifth euro has been devoted to the Cohesion Policy in Poland (Kwasowski *et al*. 2006), which means that Poland has taken over the role that previously belonged to Spain of being the largest beneficiary of this EU policy instrument. It seems to be clear to the Polish side that the country has to take an active role in the debate over this policy instrument.

Priorities that would shape the Polish position in the area of Cohesion Policy

It seems to be obvious too that the Polish position should be formed taking into account the above facts and calculations. The following is a summary of the priorities of Warsaw concerning Cohesion Policy:

1. Poland has and will continue to support the maintaining of the Cohesion Policy. Its continuation on the basis of the solidarity rule and regional dimension would decrease regional disparities, increase cohesion in the Single Market and bring further benefits to all Member States in the form of faster economic growth and labour market improvements. It has to be made clear that it is a positive sum game that brings benefits to all Member States in the EU.
2. Poland would oppose any proposal to renationalise Cohesion Policy because it may be motivated by the desire of some Member States to gradually decrease the scope of, or even eliminate, the policy. This would threaten Polish interests. It is also important for Poland that this policy would consider all Member States and not only the newly acceded countries. The transformation of this instrument into "charity" would mean in the long run the termination of the instrument in the Polish view.
3. Poland will support the proposal to increase allocations linked to new challenges facing all Member States, or such criteria that have a high value added at the Community level, e.g. trans-border cooperation, trans-European infrastructure networks, challenges linked to the completion of the Lisbon Strategy, challenges of globalisation and further market liberalisation, as well as innovation needs for global competitiveness.

[61] We have to consider as well that the sum of 35% of the EU budget means only a minor amount at the Community level, giving 0.37% of EU GNI, which does not seem to be much if we take into account the precondition that it is one of the major objectives of the EU to increase cohesion and decrease regional differences at the European level for a more integrated European market.

4. However, allocation within the Cohesion Policy should concentrate on Objective 1 areas, while at the same time developing operations both as far as funds and orientation needs are concerned within Objectives 2 and 3. New initiatives such as Interreg or Leader should also be considered.
5. Poland would promote a further decentralisation of the Cohesion Policy, particularly in terms of delegating the main competencies to the regions.
6. Poland would support the simplification of the bureaucracy linked to the management of the Cohesion Policy, which should not lead to the decrease of high standard monitoring and evaluation of public funds within the EU. Increasing visibility should not mean more bureaucracy but shorter procedures.

CAP reform

Representing a 47% share of the common EU budget, agriculture remains an economic sector with large-scale support. At the same time its share of GDP is very low: in 2005 it was 1.3% in EU15 and 2.2% in EU10. As a social factor the role of this economic sector is decreasing, though still important in certain areas. The share of the population employed in agriculture in 2004 was 3.8% in EU15 and 12.5% in EU10. It is clear from the data that there is a significant difference as to the role of agriculture between the EU15 and the newly acceded countries. However, the enlargement has brought progress to the agricultural sector in all Member States, facilitated trade within the EU and supported the modernisation of agriculture in the new Member States (European Commission 2006). As a result of the contribution of the members of the EU10, European agriculture has grown in importance in terms of area, production and the number of farmers. The fears regarding the negative effects of the enlargement on the agricultural sector proved to be unfounded. Nevertheless, the productivity of the EU10 remains distinctly lower than that of the rest of the EU. There are significant differences within EU10 as well, Poland traditionally representing the least productive country as far as agricultural production is concerned.[62]

In Poland, agriculture employs 17.4% of the workforce but contributes only 3.8% to GDP, reflecting the relatively low productivity of the sector. Unlike the industrial sector, Polish agricultural land remained in private hands during the communist era and hence, Polish agriculture is charac-

[62] The comparison does not yet take into consideration the newly acceded Romania and Bulgaria.

terised even today by a large fragmentation of holdings; a large number of people employed in the sector; prevalence of soils with average or low usefulness for agriculture; and a relatively low use of industrial means of production. The average land size of 12 ha is well under the EU average. Moreover, 35% of all holdings are under 5 ha. However, Poland is the eighth largest beneficiary of allocations within CAP and this share could increase after 2013. Polish expertise often stresses the European added value that the CAP entails (Burkiewicz *et al*. 2007). If the EU had no agricultural policy at the Community level, there would be no single market for food products. The same is true for the equal competition conditions; the protection of the natural environment; and the ability to quickly respond to crisis situations. Poland understands the importance of these advantages and the maintenance of the Community character of agricultural policy is therefore a top priority.

However, the modification of the present shape of the CAP is well understood and Poland supports the change of this policy instrument. According to Polish experts the future agricultural policy should:

1. create equal competition conditions for European agricultural producers, enabling the functioning of the single market for agro-products;
2. not be fully subjected to market rules but be further supported in the EU due to the specific character of the sector;
3. be performed at the Community level, meaning common rules and financing;
4. see the instruments of the CAP system undergoing simplification; and
5. try to respond to new challenges facing the European agriculture after accession and in the light of the further liberalisation of agricultural markets.

It is also clear, in line with what has been said above and also taking into account the new obligations related to environmental protection and veterinary conditions, that a further reduction of the CAP is not possible. The present size of the agricultural budget is the result of current reforms thanks to which this policy has become more effective.

The agricultural policy of the EU should undergo further evolution in order to be better able to respond to the new challenges of globalisation and social expectations. Poland fully understands the need for change in this area. On the other hand, Poland opposes any changes that would further reduce expenditure within the CAP, or due to which the policy would lose its Community character.

During the debates on the modernisation of the Community budget there have been voices that have emphasised that the easiest solution – with regard to the direct payments – would be to transfer their financing to the national budgets. However, a renationalisation of the financing of agriculture would mean putting the burden of the costs on the least developed Member States. National co-financing would not be a solution to the problems of the budget. It would only take agricultural expenditures away from the spotlight. For Poland keeping the Community character of the agricultural policy is thus a priority.

The discussion on the CAP should not concentrate on the question of its share in the EU budget. Instead, the question that should be asked is what changes should be implemented within the CAP for this policy to be better able to respond to social expectations and consumers' needs, while at the same time being acceptable to both farmers and taxpayers. A radical reduction of agricultural support cannot be seen as realistic in light of further world trade liberalisation tendencies. It would be very dangerous to reduce support when at the same time new obligations are being created for farmers regarding production quality and veterinary conditions. This holds especially when bearing in mind the fact that such conditions do not apply to the competitors of European farmers.

The efficiency and scope for reforms and reform proposals so far have been limited due to the fact that the positions of the Member States have been dominated by *juste retour* in budgetary negotiations (on the part of both net contributors and net beneficiaries), while the CAP requires actual reforms that serve the interests of the entire European Union. The enormous value added that the principle of solidarity has entailed for the European budget should not be forgotten.

European Neighbourhood Policy

The European Neighbourhood Policy is considered to be one of the major areas that the Polish position is focusing on. Poland has a long external EU border and finds the maintenance of funds within this policy instrument especially important for two reasons. First, complying with the obligations related to the Schengen Agreement places huge burdens on the national budget. Second, it is a question of national and international security to help the democratisation process in the neighbouring countries. Especially important in this respect are the relations with Ukraine, Russia and Belorussia. Poland wants to maintain good relations with these countries and would also support the promotion of economic growth and political stabilisation in neighbouring countries that would most probably not be offered full membership status in the near future but might be potential candidate countries at a later stage. The European Neighbourhood Policy should be shaped at the regional level and Warsaw has played – and would very much like to continue to play – an active role in this Community task.

Conclusions

In light of the positive experience of EU membership since 2004, Poland has been reassured regarding the merits of the integration model based upon solidarity (both in the sense of an economic integration model and as regards foreign policy) and the free market, which it would like to maintain in the future. The Polish position reflects the perspective of a country catching-up, to which economic cohesion is a priority; a priority that can be more easily achieved with the EU regional policy instruments. Agriculture is an important economic and social factor in the Polish national economy and Warsaw will therefore not be indifferent towards reform of the CAP. The general Polish objective of keeping an integration model that is based on solidarity and the free market can only be maintained when the model has social backing from the whole Community. Hence, it must be clear to a Polish negotiator that a compromise solution is a must in order to change the general social perception of the EU.

To achieve the basic wishes of the Polish foreign policy – in other words, enhanced external security, more dynamic catching-up of the economy and an increased role of Polish politics within Europe – the Polish position will have to be formed with care. There is hope that this will be understood by the official Polish negotiators, since after the elections in October 2007 political life in Poland has moved in the direction of stabilisation, while demagogue tendencies and extremism have been marginalised. This is a favourable event for the supporters of the EU, since a Polish stance based upon facts rather than sentiments can be formed. However, this does not mean that the Polish negotiators will not fight till the end for their interests but it is well understood at present in Poland that less could mean more in this case. Maintaining the present policies could mean more than achieving a higher share in a policy instrument that will soon cease to function.

4.7 Hungary

Tamás Szemlér

While it is practically unknown to the broader public, the budget review is followed with great interest by policy-makers and academics in Hungary. The Ministry of Foreign Affairs has revised its EU strategy in 2007 and, as part of this revision, also tackled the issue of Hungary's positions on the EU budget review. The final document on the EU strategy is available on the website of the Ministry of Foreign Affairs; the document reflects many of the ideas discussed in a series of academic and policy-oriented background papers prepared for the renewal of the Hungarian EU strategy in 2007; this is also true for the statements concerning the EU budget review.[63]

General approach

The Hungarian approach to the EU budget review is influenced by two basic considerations. First, Hungary, as a relatively less developed member of the EU, has a net beneficiary position vis-à-vis the EU budget. Second, as a new Member State, Hungary is interested in being part of a successful European integration process. There are aspects where these two considerations lead to similar positions but there are others where they – at least at first glance – contradict each other. The task of formulating a Hungarian approach to the budget review can also be conceived as to define the strategic interests of the country – based to a great extent on the above two considerations – regarding the future of the EU budget.

Hungary is in favour of a policy-driven budget, and therefore is interested in an agreement on the objectives (corresponding to the policies) of the EU budget. This means that the size of the budget should be defined by the needs created by the policies: a larger budget is not an objective in itself even if the country is and for a certain time probably will remain a net beneficiary of the EU budget. On the other hand, attempts to limit the size of the budget, without caring about the policies financed, should also be rejected.

A consensus on EU policies regarding their fields and their role in the future is a pre-condition for such a solution. A further condition is to come to an agreement among the Member States on what should be financed, partially or entirely, from the EU budget – as opposed to what should be left for the national budgets.

[63] The chapter mainly relies on the following papers and documents: Balázs (2007), Inotai and Szemlér (2007), Hetényi *et al*. (2007) and Hungarian Ministry of Foreign Affairs (2007).

While Hungary is in favour of reforms which would be in line with what has been said above, its position on the 2008/2009 budget review is that it should not modify the 2007-2013 Financial Framework.

Hungary is ready for a review that is open to all options, including the revision of existing EU policies; the possibility of thinking about new ones wherever there is a need for them; and also readiness on the part of the Member States to finance them. However, new items should not endanger the appropriate financing of traditional policies. Hungary holds that it is very important to preserve the policies, as they are important pre-conditions for the long-term catching-up process of the country. Of course, this point of view does not exclude reforms: in some cases only a reformed version of the policy may be sustainable and/or efficient in the long run. This is particularly the case with the CAP.

Own resources and corrections

The budget also needs stable and satisfactory financing. In line with its preference for a policy-driven budget, Hungary is committed to making an effort together with other Member States to reduce the importance of the *juste retour* approach. The question of the net positions could be pushed into the background by the creation of (a) new own resource(s) and therefore conceivable options for such a solution – simply put, the introduction of an EU tax or taxes should be studied carefully. Hungary is open for such a debate but as for now it has not opted for a favourite solution.

Hungary is against any general correction mechanism or individual correction measures. The position is that in a budget where the objectives – i.e. the policies to be financed – are well defined and agreed upon – and the structure of the revenue side is also a result of not only formal, but also real consensus – there is no need for correction mechanisms.

One should not forget that correction mechanisms in general and the UK rebate in particular constitute only the tip of the iceberg: there are several exceptions and ad hoc regulations related to the contributions to and receipts from the EU budget. All such ad hoc regulations should be abolished in order to arrive at a simple and transparent system.

Cohesion Policy

For Hungary, the continuity and the appropriate financing of the Cohesion Policy is very important, as this policy is regarded as an important tool to enhance economic growth and promote employment in the country. The Hungarian interest is to maintain the present Cohesion Policy (with regions as main target levels) according to the Treaty and financed to a great extent from the EU budget. Full or partial renationalisation of the policy could have negative consequences for Hungary, as support for the agricultural sector could not be assured from national resources at the same level as in some richer Member States.[64]

This position does not mean that Hungary wants to maintain the Cohesion Policy as it is today. Hungary is interested in further pursuing the fundamental objectives of this policy and is therefore interested in making the policy more efficient. Due to the expected future enlargements of the Union, Hungary will have to achieve its catching-up with the more developed countries of the EU in a shorter time period than earlier entrants, as the future newcomers will both modify relative development levels and also need an important share of Cohesion Policy financing.

For the period beginning in 2014, it will be very important for Hungary to obtain EU budget resources – not least from the Structural Funds – in the same order of magnitude as between 2007-2013. In the longer run, however, Hungary is more interested in concentrating on the budget as a whole as well as on the indirect effects of Cohesion Policy. Hence, the real objective is no longer the maximisation of the resources available in the next period but the possibility of catching-up with the EU15 (Hetényi *et al*. 2007). This does not only mean a large amount of transfers but also that other qualitative aspects, such as an appropriate policy mix and efficiency of the Cohesion Policy instruments, are of importance. The optimal outcome from all these factors would be an effective combination of Member State and EU interests.

Common Agricultural Policy

Hungary is an important beneficiary of the CAP but it is clear that this policy will be one of the issues that will take centre stage in the debates during the review. The issue is closely linked to the UK rebate; in fact, there is no realistic chance of making substantial progress in one of these issues without taking an important step forward in the other. The Hungarian position is to be open for potential reform of the CAP after 2013. However, this position is not unconditional and indifferent to the kind of reform that will take place.[65]

Liberalisation would be beneficial for big farms, especially for arable crop production, as production on big farms in Hungary is competitive within

[64] Due to the lower overall development level as well as to eventual (national) budgetary tensions.
[65] On reform scenarios, see Balázs (2007) and Hetényi *et al*. (2007).

the EU now. A change towards a system where Hungarian producers would not be disadvantaged by the present system of direct payments would be advantageous for these big and competitive units. On the other hand, small and medium-sized farms in Hungary might be the losers of such a change; this is most probably the case of livestock breeding and vegetable and fruit production.

Renationalisation tendencies would clearly be unfavourable for Hungary. The co-financing of direct and market support (at any rate) would be a disadvantage for Hungary. Such a measure would increase the burden on the Hungarian budget: in the case of a 30% co-financing rate, the negative balance for the 2007-2013 period would be EUR 700 million (as a balance of the additional burden on the national budget and the amount won on decreasing payments to the EU budget). Since co-financing would be a possibility and not an obligation, support to Hungarian producers would in part be dependent on the general situation of the national budget.

A moderate reform within the present framework of the CAP would maintain a majority of the advantages of the CAP relevant to Hungary today. The most important advantage of such a scenario would be the prolonging of the distribution of shares between Member States of Community agricultural support. A simplification of the regulations and a decrease in the administrative burden would be in line with the interests of Hungary. Market protection ideas are also favourable for Hungary. Since the market and environmental risks of Hungarian agricultural production are higher than the European average, Hungary is interested in incorporating new risk management tools into Community regulations.

However, the old dilemma of Hungary remains: should the country try to maximise Community funding for agriculture or should it strive for a different and more liberal CAP, with more weight on rural development? The answer can only be based on a long-term agricultural strategy, which does not exist as yet; such a strategy should be a result of consensus among all players concerned.

If the maximisation of CAP revenues is at the core – and this is not a negligible aspect in the case of a country in need of economic catching-up – then Hungary is interested in maintaining the present framework of the CAP as long as possible, allowing only for a gradual reform of the system. However, recent events (first of all the abolition of the maize intervention) question the rationality and reality of such an option.

However, if Hungary is ready to change from an agriculture concentrated on market and direct support to a different and healthier agricultural structure, the decrease of CAP support is unavoidable. In this case the country should play an active role in promoting the rural development policy. The future rural development policy should be in line with the fundamental objectives of the CAP and should offer policy tools aiming at increasing the quality of life for a broad range of the rural society.

Lisbon objectives

The fulfilment and revision of the Lisbon objectives may also have consequences for the future shape of the EU budget. If Europe's competitiveness deteriorates further, it might be perceived as necessary to allocate a great deal more resources from the EU budget to R&D, innovation and education programmes, in order to increase synergy between the development efforts of Member States, taking economies of scale considerations into account. Global competitiveness may become a central question for the EU economy and a deterioration in this respect may have a catalytic effect on the reformation of existing budget expenditure items.

From the Hungarian point of view it is very important that the Cohesion Policy should not be a victim of such a development (Hetényi *et al*. 2007). According to the Hungarian position the EU's regions differ as regards their level of development and therefore need differentiated treatment. The financing of the Lisbon objectives is important but should not endanger the financing of regional development, including the financing of infrastructure development; the under-financing of the Cohesion Policy might in the long run undermine any progress made in the Lisbon programme.

Potential new expenditure items

Regarding the future of the expenditure side of the EU budget, reforming or streamlining the actual expenditure headings is not enough: in the long run there may be a need for new policies, to be possibly financed from the EU budget, either as a consequence of the EU's internal development or due to changes in its external environment.

Hungary is open to the inclusion of new policies into the expenditure structure of the EU budget. However, it is also interested in maintaining the old policies in a form adapted to the current challenges, so the balance is very important. Regarding the reform of existing expenditure items, Hungary may generally have a defensive position. However, this is based on rationality: while it is very clear that there is no rationality in opposing CAP reform, different reforms have different outcomes for the country (as they do for all Member States). Regarding potential new expenditure headings,[66] Hungary can play an active role, paying attention to keeping the balance between the presence of old and new policies in the EU budget.

Preserving existing but modernised policies is a key issue for the continuity of the economic catching-up process of Hungary after the 2007-2013 period (Iván and Hetényi 2007). The country is interested in obtaining the same amount of financial support from the EU for the next period as it did between 2007 and 2013. This seems to be a much more difficult task than earlier – due to reform needs of common policies as well as to the effects of potential enlargement – but not necessarily a mission impossible. This approach will lead to many more conflicts of interest and thus potentially much more confrontation. However, in the longer run – that is to say, after the post-2013 Financial Framework – the maximisation of EU funding according to the current fashion will not be a major objective in itself any more: the recognition of the need of a successful EU as well as the effects of further enlargements may modify the Hungarian approach.

Enlargement

Further enlargement of the EU may have important consequences for the future of the EU budget, as well as for the priorities of Hungary in this respect. Until 2013 it is only Croatia that has a realistic chance of joining the EU and the effects of its membership are estimated to be negligible.

The big question is enlargement beyond 2013 and, first of all, the prospects of Turkish accession. If the future EU budget is to be established for an EU that includes Turkey and the Western Balkan countries – perhaps even the Ukraine as a future potential candidate for EU membership – then the prerequisites for EU budget negotiations will differ substantially from the present ones.

Due to the fact that the overall economic development level of the current candidates is substantially lower than the EU average and also much lower than the average of the 12 newcomers, their accession will considerably modify the levels of relative development in the EU. Due to its size, the effects of Turkey's (and eventually the Ukraine's) accession are crucial in this regard, while the other candidates can be seen as more or less negligible. From previous experience it is obvious that a gradual phasing-in of Turkey into cohesion funding could be a solution but it would also be nothing more than a temporary solution.

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[66] Like energy policy, R&D policy, innovation, education, social policy, employment policy, health policy, migration policy (Inotai and Szemlér 2007; and Iván and Hetényi 2007).

The picture is very similar in the case of the CAP. Agriculture has a considerably larger share of the economies of the present candidates compared to the current EU average and, in addition, their agricultural sectors need even more modernisation than those of the recently acceded Central and Eastern European members. Here again a phasing-in of the new members might help to lessen the effect of their accession on the EU budget.

With regard to both policies – the Cohesion Policy and the CAP – long-term solutions in the case of further enlargement (including Turkey) are only conceivable if substantial reforms take place. As far as further enlargement is concerned, Hungary's interests naturally stretch beyond EU budgetary aspects. However, it is clear that an enlargement of the "heavy players" – Turkey in the first place but in the long run potentially also the Ukraine – should change the way we think about the EU budget and related EU policy reforms in Hungary.

In such a case, the interests of Hungary consist of shaping the reforms in a way that best serves the fundamental objectives of the country: providing a positive environment – financial as well as regulatory – for Hungarian development policy, competitiveness, and the catching-up of the country with the more developed parts of Europe (Hungarian Ministry of Foreign Affairs 2007).

Decision-making and potential coalitions

Hungary, as a fully fledged member of the EU, is interested in participating actively in every phase of the discussions on the future of the EU budget. Hence, it is interested in avoiding a situation where some Member States agree on a solution behind closed doors and the remaining Member States can do little more than accept *factum brutum*.

As has already been mentioned, a balance between genuine Hungarian interests and long-term interests of the integration process should be found. Such an approach can make coalitions easier; coalitions are of vital importance for Hungary's priorities, Hungary being a medium-sized Member State. In all probability there will be a number of ad hoc coalitions around specific issues but we can also count on more long-term co-ordination with certain countries, first of all within the Visegrád group.

4.8 Bulgaria

Kalin Marinov

In recent years there have been two main streams of debates concerning the EU budget. On the one hand, on reforming the revenue structure, and on the other, on reforming the expenditures structure. On the revenues issue the efforts are aimed at finding an own source of funding EU tax which would substitute the current system of contributions. Although this rather radical change in the history of the EU is supposed to be further negotiated, it should be synchronized with the level of economic convergence in the EU and possible EU enlargement. As far as reforming the expenditure structure is concerned, delivering an appropriate decision will ease the discussions between net contributors and net beneficiaries and this will in some way lead to a solution to the two-decade-long debate on the UK abatement and CAP reform. However, the Bulgarian Government has declared a policy of consensus regarding the priorities of the EU and insists that these should be pursued with more internationally oriented instruments and the current system of national and regional support should also be reformed.

Domestic policy issues – related to the EU budget

Bulgaria was not a full member, but already an observer who could participate in the debate on the Financial Framework in December 2005. Every country was able to set aside its narrow national interests and take one small step backwards in order to reach an agreement (Stanishev 2007). However, the Bulgarian Government has declared a policy that follows the priorities of the EU and is maintained in the EU budget as well as a policy of compromise: increasing the competitiveness of the local private sector; investing in human capital and increasing the capacity for lifelong learning; reinforcing flexicurity in the labour market; reconstructing the state infrastructure; and reaching stable economic growth through sustainable development. Thus the expenditures in the national budget for 2007 and 2008 allocated for items such as state administration, military forces, national security and defence, health services and social assistance are slightly restricted. Furthermore, the Government is attempting to substitute national funding with EU funding in the prioritised sectors.

In December 2007 the National Rural Development Plan (2007-2013) was approved with funding amounting to EUR 3.242 billion, out of which 80% will be provided by the European Agricultural Guidance and Guarantee Fund. After the first nine months of 2007, the share of the agricultural sector of GDP was 5.7%. The level of technology is totally insufficient within the sector and productivity is highly dependent on the weather conditions. The direct payments to farmers in the first years of EU membership are expected to a) increase the average level of the wages in the sector and b) strengthen its competitive capacity to deliver more export-oriented production.

The current average level of private investments in R&D is low and Bulgaria is far from achieving the overall Lisbon goals of 3% of GDP invested in R&D (2% of GDP in private investments) by 2010. At the beginning of 2007, investments in R&D in Bulgaria amounted to 0.5% of GDP and was almost only covered by the public sector. The Bulgarian Government is aiming to bridge the gap between enterprises and research institutions which will lead to an improvement in the productivity of enterprises, development of new or improved products and services with high added value mainly by implementing the Operational Programme on the Development of Competitiveness of the Bulgarian Economy in 2007-2013.

The Ministry of Foreign Affairs of the Republic of Bulgaria claims to pursue a medium-term policy of even more intensive negotiations in order to join the Schengen zone. Bulgaria is implementing, on a priority basis, the measures under the National Action Plan for the Adoption of the Schengen *acquis*, as well as of the Strategy and Action Plan on Integrated Border Management. A deepening of the co-operation with EU institutions is needed in order to complete all necessary prerequisites and fulfil all recommendations by 2011–2012. Bulgaria will certainly need essential financial assistance to establish effective external EU borders, because in the years ahead the Government will not be able to ensure own capital expenditures within this item.

The Bulgarian Government, NGOs and the society at large were also strongly concerned about the increasing migration flows in 2007. According to forecasts, the immigration wave (which mainly consists of people trying to reach the western countries of the EU but also of people staying in Bulgaria) will reach its peek in 2009. Joining the Schengen Agreement could also be a sign for a second wave. Thus, from a Bulgarian point of view, it is important that the volume in 2008 in the EU budget headings Freedom, Security and Justice – Citizenship and The EU as a Global Player is raised from its current level.

Another important issue in the domestic policy related to the EU is the negotiation after the shutting down of the 3rd and 4th reactor block of the Kozloduy Nuclear Power Plant which was a pre-accession clause. The Minister for European Affairs, Gergana Grancharova, made a statement that Bulgaria will require further funding after 2009 in addition to the funding in the preliminary agreement (Grancharova 2008). During the winter period 2007/2008 Bulgaria stopped exporting electricity due to the increased internal demand.

Positions on a future EU tax

During the first year of full EU membership, the Bulgarian Government has focused on the fiscal policy on the revenue side, where there have been two main priorities. The first priority has been to harmonise taxes with the EU and the second to enlarge the tax base and reduce the tax burden. In the context of its internal tax policy, the Bulgarian Government is still trying to adjust local taxes to the requirements of the EU by maintaining a rather neutral position on EU revenue.

The positions of the parties in the Bulgarian Government regarding a common EU tax seem to be fairly similar. The main point being to ensure an equal tax burden for Bulgarian citizens vis-à-vis the rest of the EU determined in accordance with the level of convergence with the old EU countries.

Deputies from the opposition in Bulgaria have claimed that some of the tax reforms carried out during 2007 – primarily the harmonisation of the excises collected on alcohol, tobacco and fuels – have triggered the current high inflation level of 8.5% as of October 2007 (National Statistical Institute 2008). Actually suppressing the level of inflation and controlling current account deficits are considered to be major challenges to the economic stability of the country. Bulgarian policy-makers were generally in agreement that tax competition might be of great benefit to the country, as it might attract foreign direct investments and raise economic growth (economic growth in 2006 was 6.1% and in 2007 it was 6.4% according to forecasts by the Agency for Economic Analysis and Forecasting). In this regard they will be in a position to negotiate a common EU tax based on indirect payments. As it is a general tax on consumption, with a large base and relatively low rates, VAT may be regarded as one of the most neutral forms of taxation, also insofar as it does not enhance tax savings: it corresponds to the ideal general consumption tax that many analysts and policy-makers have been advocating. However, VAT is also often determined as an unfair tax, since it hits low-income earners harder. The reason is that low-income earners tend to consume a larger fraction of their income and save less compared to high-income earners. Having said this, it is a common view that the reinforced position of the EU as a global player, along with trade relations with third countries, will inevitably lead to tax harmonisation within the EU and it will also lead to a convergence of the attitudes towards a common EU tax.

Rebates

The issue of implementing a fair abatements system – or deconstructing the existing system – is a relatively new strategic question for policy-makers and NGOs in Bulgaria. There are two main possible policy directions, which could be seen in the context of national versus EU priorities. The enlargement of the EU implies that the gap between national and Union priorities is also increasing. It could be argued that in recent years, along with the acceleration of the integration process within the EU, there has also been a certain predominance of EU priorities over national priorities. In this regard the CAP and abatements debate concerning the post-2013 Financial Frameworks will show whether such predominance exists:

1. Nationally oriented priorities: the UK would insist on maintaining the current system of abatements – or making insignificant changes to it.
2. EU-oriented priorities and faster convergence: the abatements would be abolished in order to speed up the convergence of the trailing states and regions. The long-term effect of such a policy would be a reduction of the payments of all Member States.

Bulgaria would take the opposite stance with regard to the current system of abatements and would choose to reform it rather than introduce general correction mechanisms.

In the recent discussion within the NGO sector in Bulgaria on the matter of any further reform of the abatements system, there was an understanding that the process should be oriented towards establishing prerequisites for fostering international co-operation, in the context of the creation and implementation of international projects based on high technology rather than only equalling the negotiations to a matter of financial transfers. This could strengthen the position of the EU as a global player and this could in turn reduce the dependence on third countries.

Expenditure structure

The Bulgarian Ministry of Regional Development and Public Works set a priority in its policy framework for the period 2005-2009 strengthening the competitiveness of the border regions in the country not only at the national level but also within the EU. Bulgaria should proceed with the harmonisation of its local transport infrastructure with EU standards, which will require additional funding. In this regard, an expenditure increase in the Agenda 2014 should foremost be focused on the funding of international cross-border projects in physical infrastructure, as they are important for many Member States and would not be implemented at the national level. Such projects require a higher volume of funding and usually have a higher gross added value for one of the countries involved in the bilateral or multinational agreement. This makes the process of negotiation with regard to the proportion of funding a great challenge. Currently the projects funded by the Structural Funds are aimed at fostering national or regional convergence and competitiveness. According to some of the leading NGOs and research centres, since these initiatives are important first at the national and second at the EU level, their funding should be gradually transferred to the national budgets in the next Financial Framework.

With regard to the current expenditure headings, policy-makers in Bulgaria have a positive attitude towards the current structure. Sustainable growth is also a major national policy priority. The unemployment rate reached 6.6% in November 2007, which is the lowest level in 16 years (National Employment Agency 2007) and the expected average for 2007 is 7.1%. A major challenge for Bulgarian SMEs in the period 2008-2009 will be to fulfil all the EU standards that were postponed at the time of EU accession. The Government believes that it will, with the effective allocation of EU funding, manage to provide decent opportunities for the entities to cover all quality requirements for their output and within the production process.

A positive reform in the structure of EU expenditures would be to emphasise the importance of the future migration policy – focusing on internal migration flows in the EU as well as on inflows from third countries – by creating a separate item for this purpose.

The Prime Minister of Bulgaria, Sergei Stanishev, emphasised that the reinforcement of the EU as a Global Player can be achieved by ensuring greater investments in developing innovative technologies, which will increase EU competitiveness in the global market. The reduction of innovation deficiency will be the key challenge facing the new European Regional Policy. Knowing that the future belongs to the high-tech sectors that are the engines of economic growth, Bulgaria has made an analysis and a choice of strategy and will focus its efforts on the following sectors: information and communication technologies (ICTs); biotechnologies; precision instrument-making; energy-saving methods and equipment; renewable energy sources; nanotechnologies; and microelectronics.

The conservation and management of national resources should be achieved through a broader overview of the global environmental challenges. The Ministry of the Environment and Water initiated the Harmonisation of National Environmental Legislation with the EU *acquis*. Representatives of the institution insist on further compliance with the international standards in the country and suggest that a strict framework for a common environmental policy is required at the international level and should therefore be developed. Moreover, it should be created in at least two stages – R&D and actual implementation – and be based on international collaboration.

Common Agricultural Policy

The Bulgarian Government has declared its willingness to be active in the process of negotiating the CAP in order to avoid short-term growth in the agricultural sector for the sake of a successful long-term policy. On the one hand, reducing the proportion of agricultural expenditure and direct aids in the EU budget should be based on the development of different sub-sectors, existing gaps between different rural regions in the Union, as well as on leaving more space for reaction to unforeseen developments (flooding and drought). On the other hand, in the short-term, the Minister for European Affairs, Gergana Grancharova, has announced Bulgaria's intention to maintain the system of direct payments to farmers (Grancharova 2008).

In the case of Bulgaria it is not only important to receive direct financial assistance but also to have equal access to the market in order to strengthen the sector's competitiveness. All in all, the Bulgarian position on the CAP could be considered positive although there are still no indications that the Government will include agriculture as a national priority and thus substitute the allocated funding during the period 2007-2013 in the next Financial Framework.

Cohesion Policy

In terms of social and economic cohesion it is important to mention that the financial assistance provided to the less developed countries and regions should also be supported by the transfer of know-how, management experience and implementation of the national/regional convergence policy, since it is a challenge – not only for beneficiary countries but for all EU institutions and Member States – to prove that the available funding is used efficiently. Indeed, one effective measures in this regard would be to strengthen monitoring and even to initiate the direct involvement of the EU's regulative bodies during the whole process of the absorption of the EU's financial support, which is provided by the basic EU instruments for the promotion of social and economic cohesion – the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund.

In the case of regional development and convergence it could be useful to implement a mechanism for evaluating the short-term progress in a given region as a result of the implemented projects. Such practice would also be a major factor in preventing the so-called “addiction to EU funding”, so as not to become a hostage of the beneficiary structure of the EU budget. For Bulgaria such prevention would be crucial, especially in the agricultural sector, since the relatively low incomes would be artificially increased at the first stage of the funding as a result of the direct payment to farmers. The Bulgarian Government will try to compensate the passive agricultural policy that has prevailed in recent years and find a long-delayed response to many challenges that have mainly been tackled with subsidies.

The positive EU trend where the unemployment rates have been reduced and the employment rates of the population aged 15 to 64 have been raised, along with negative demographic tendencies in the Union, have raised the issue of workforce shortages. This issue will gain further importance when the next Financial Framework commences. The workforce deficiencies should be tackled with an appropriate migration policy on both inflows and outflows as well as an evolutionary social policy within the EU. The Republic of Bulgaria is in favour of the complete application of Community law in the area of the free movement for workers and also of the establishment of conditions which would allow the citizens of the EU to exercise their right to free movement in order to work – which is their basic right. In that respect Bulgaria would like to prove its position in practice, such as at the end of 2006, which was declared by the European Commission as the year for the promotion of labour mobility within the EU (Bulgarian Government 2006).

The size of the EU budget

The size of the EU budget should be relevant to the level of integration of the states within the EU. According to experts in Bulgaria working for NGOs, bearing in mind the current level of integration, the volume of the budget set in the 2007-2013 Financial Framework is more a policy of wait and see until further negotiations take place, on the one hand to clarify the medium-term priorities, and on the other hand until the EU institutions find a solution to the negative results of the referendums on the EU Constitution in France and the Netherlands, which could be perceived as a no on the part of European citizens to the further continuation of the process of integration within the Union. Many argue that you receive nothing from the EU unless you are a farmer or live in a poor area. However, the Treaty signed in Lisbon on 13 December 2007, which should be ratified by member governments by 1 January 2009 (some months before the elections to the European Parliament) should become a reliable base for the tangible increase in the EU budget in the next Financial Framework.

The political mood in Bulgaria regarding an expansion of the EU budget is positive but the Government feels that such a decision should be approved only after a massive restructuring of both revenue and expenditure. The increase in the EU budget should be set at the level of the citizens in the respective EU countries rather than at the national levels. The two usually differ immensely, insofar as income distributions within Member States differ. Currently, national payments to the EU budget are acceptable to the citizens of the Member States and they are by far less of a burden to individuals compared with the burden of the national budget. The Bulgarian payment to the EU budget costs between EUR 30-40 per capita each year, while the contribution of a Bulgarian citizen to the national budget is estimated roughly at about EUR 930 and the balance is similar in all Member States. At its current size the EU budget is often compared to an EU fund, since it is too small to tackle all the ambitious aims and priorities that have been set in the new Lisbon Agenda.

A reform of the revenue structure might raise great concerns for the Bulgarian Government that is on the verge of joining the euro zone. After the first year of EU membership the basic challenge for the state is to deal with the high inflation rate, which seems to be a major obstacle for entering the third stage of the EMU. The Bulgarian Government is currently in the process of negotiating to join the Exchange rate mechanism (ERM II). According to the expectations of policy-makers, Bulgaria will enter ERM II in 2008 and the euro zone in 2011-2012. In this context the Government would be very cautious about carrying out any further tax reforms.

Enlargement

There is one major question mark regarding the process of further EU enlargement: what will be the effects of Turkish and Croatian accession to the EU? It is clear that they will have a major impact on the economic indicators of EU27. Croatia is well placed as regards, for example, corporate social responsibility, sustainable development and observing the international environmental regulations, and would not need massive funding in these areas. Turkey is a country with strong and positive demographic tendencies but it still suffers from a high unemployment rate and large regional economic development gaps. In this regard one could outline five basic points concerning the potential enlargement embracing the statements made by government and non-government institutions in the country after accession to the EU:

1. The state should initiate economic convergence at the national level and then at the EU level. However, in terms of the 2007-2013 Financial Framework, Turkey would have the possibility of absorbing approxima-

tely 20% of the funding available for the new Member States. The average level of GDP per capita in the EU will decrease and thus some regions of the Union would not be eligible for financial assistance.

2. The CAP should also be reformed in view of Turkish membership as more than 33% of the state employees are currently registered in the agricultural sector whilst productivity is still low and in certain areas the shortage of technology is of great concern. In the context of the forthcoming reduction of the volume of the items funded through the CAP, this will decrease the required financial assistance and make local producers uncompetitive in the short-term in the Single Market.
3. The current positive demographic situation in the country and the high unemployment rate are prerequisites for massive migration inflows after joining the EU and the opening of the labour market. On the one hand, such a scenario will have positive effects on labour productivity and raise economic growth in the old EU members (especially Germany) but it may, on the other hand, cause unpredictable regional unemployment.
4. The revenue structure of the EU budget will be favoured by the expected trade increase between Turkey and the remaining EU countries (both export and import-orientated as the country has a large domestic market). At the same time there will be a further deterioration of the trade balance between Bulgaria and Turkey.
5. Additional expenditure will be needed to reinforce the EU's external borders, particularly to the east and south. This imposes considerable responsibilities on new EU members who, for reasons of geography, are now taking over the management of the majority of these frontiers. They are receiving EU financial support for increased cooperation between border guards, police and customs officers as well as for the adoption of modern techniques like computerised fingerprinting and personal data identification. The Ministry of the Interior of the Republic of Bulgaria fully supports the security initiatives within the EU and believes that they will further improve EU relations with third countries.

Institutional issues

The lack of synchronisation with the mandate of the European Parliament and of the European Commission could be considered as one of the most serious drawbacks of the current multiannual budgetary system. The people in power in the major EU institutions when the budget is being planned are almost never those who will execute the decisions during the mandate period. The majority of independent experts in Bulgaria suggest that although the multiannual budgetary system has many advantages, a simple solution could be to reduce the period of the Financial Framework with two years.

4.9 Evidence from the country papers

Tamás Szemlér

The country papers allow us to draw some conclusions on some important issues of the budget review. Of course, these conclusions should be handled as preliminary, since the budget review is just entering its most intensive phase. On a number of issues, however, one can already see the probable convergence or divergence of positions.

Table 11 on pages 130-131 summarises the most important remarks of the country papers, related to the following aspects: the introduction of an EU tax; the future of the UK rebate and related rebates; the future of the CAP and Cohesion Policy; proposed new expenditure items (or important increases in parts of already existing items); and the overall size of the EU budget.

The prospects of the introduction of an EU tax do not seem to be very bright. Four of the eight Member States are clearly against such a step. The other four Member States declare a fairly open attitude towards a possible debate on an EU tax, but they do not have any concrete proposals. The question is whether their attitude would be positive or not in the case of a concrete debate on a concrete proposal.

The reluctance with regard to the introduction of an EU tax, however, does not mean that these countries would like to see the financing of the EU budget unchanged. The papers on the net contributor countries (Germany, France, Sweden and the UK) in particular expressed an interest in the move towards an entirely GNI-based financing of the EU budget. As far as the information in the papers on the other four countries allows us to conclude, these countries would not oppose such a change.

A detail, but a very important detail on the financing side is the UK rebate, together with the related rebates (for Germany, the Netherlands, Sweden and Austria). Naturally this issue divides the camp of the net contributors: while the UK is interested in maintaining it, the other countries are more in favour of a substantial change. Due to the specific link between the UK rebate and the reform of the CAP, established during the negotiations of the 2007-2013 Financial Framework, France as the traditional main beneficiary of the CAP is a specific country from this point of view.

While it is impossible to predict the shape of the change of the present form of rebates – the two basic options are the abolishment of all rebates and the creation of a general correction mechanism – changes are more than likely to occur: this is also confirmed by the opinions expressed in the papers on the four other countries, as well as by the results of our questionnaire survey.

The change mentioned above is even more likely, bearing in mind the fact that as the expenditure item that is very much connected with it politically, the CAP, is also likely to change. Of course, the position of France is still different from that of most other EU15 Member States, and among the EU12 Poland or Hungary may have the strongest interests in maintaining the CAP. However, according to the country papers all these countries are aware of the fact that some kind of reform of the CAP is unavoidable (due to both external and internal factors), which once again supports our survey results. In addition, it is worth emphasising here again that the position of France, traditionally the biggest beneficiary of the CAP, is changing: if the reform of the CAP can be linked with a reform or abolishment of the UK rebate, France could gain in financial terms.

Regarding the Cohesion Policy, opinions expressed are quite mixed. Some countries would concentrate on the neediest regions throughout the EU27, some would prefer concentrating on the neediest Member States; this also raises the question of the optimal level of EU intervention. In several countries, arguments are raised for the concentration of the efforts, but in one of them (France) also for broadening their competence. Unsurprisingly, Poland and Hungary wish to keep their current high level of support, and Bulgaria is also hoping to reach similar levels. In the light of all these positions, the UK preference for a significant reduction in EU financing for cohesion promises conflicts. Even if we are far from the end of the budget review and even farther from the Agenda 2014 negotiations, there can be little doubt that the Cohesion Policy will once again be the field of the toughest battles of the EU budget.

Of course, there is a possibility that new fields will join it – the “wish list” of proposed new expenditures is a long one. However, at the present stage, we should handle this list carefully: as it is stated in the country papers, some net contributors of the EU budget have already pointed out that any new expenditure may occur only at the expense of present expenditure items. On the other hand, net beneficiaries of the budget would like to preserve the items which assure their present positive balance, therefore they will probably not be willing to risk present expenditure items for something new.[67] The most we can conclude from this now is that the items in-

[67] The CAP reform, as mentioned above, is a different issue, due to a number of pressing factors.

dicated in the country papers and in Table 11 can be perceived as preferences, and many of them may occur in the discussions on the future tasks of Cohesion Policy.

Regarding the preferred size of the budget, there is no surprise at all: while the net contributors would prefer (or rather, as they word it: only accept) an EU budget of a size equal to or lower than the present one, net beneficiaries would prefer a bigger budget (Spain is currently in an intermediary position). The debate is not a new one, and a further consequence – notably the limited financing for future enlargements – is not a new phenomenon either.

All in all, the country reports confirm certain aspects of our survey results and lead us to the general conclusion that while no systemic breakthrough can be expected from the budget review, progress can be achieved regarding some traditionally major issues, the most important ones being the reform of the CAP and the abolishment of the UK rebate and related rebates. How far these changes – if they happen, of course – will go, depends very much on the political will. This will first be demonstrated during the 2008/2009 budget review, and subsequently concretely proved and further developed during and after the Agenda 2014 negotiations.

Table 11 Summary of country positions on top EU budget issues

Issues	Germany	France	UK	Sweden	Spain	Poland	Hungary	Bulgaria
Introduction of an EU tax	No	No	No	No	Not against in principle – but not to pay for enlargement	No official position yet; probably open for discussion	In principle ready to negotiate any EU tax	Ready to negotiate any indirect EU tax
UK rebate and related rebates	Abolish/ General Correction Mechanism	Abolish	Maintain/ Reform only parallel with CAP reform	General Correction Mechanism	Reform/Abolish	Abolish	Abolish	Reform of the present system rather than a generalised correction mechanism
CAP	Reform; national co-financing of direct payments	Maintain; increasing openness for reform	Abolish/ reform	Abolish/ reform	Reform/ abolish	Maintain; increasing openness for reform if equal competition conditions for all EU producers ensured; no re-nationalisation	Increasing openness for reform	Openness for reform
Cohesion Policy	Concentrate on the neediest regions; more emphasis on Lisbon targets	Concentrate on Objective 1 regions in the EU-27; bring objectives into balance; broaden funds' competence	Significant reduction of current EU funding	Concentrate on neediest Member States; coherence ensured to avoid counteraction between policy areas	Increased concentration necessary for higher efficiency	Maintain; no renationalisation; concentrate on Objective 1 areas	The country's share to be kept high – at least for the next Financial Framework	Important; to be kept at present level and to be made more efficient

Issues	Germany	France	UK	Sweden	Spain	Poland	Hungary	Bulgaria
New or increasing expenditure items proposed	Lisbon objectives	Lisbon objectives; Education and youth; Security and justice	R&D, CFSP	Lisbon objectives; Justice and Home Affairs; safeguarding peace, democracy and human rights. However, any new expenditure item only as a result of CAP and Cohesion Policy reform (reduction)	Industrial policy, social and employment policy, defence, EU diplomatic corps	European Neighbourhood Policy; Globalisation, energy, sustainable development	A defensive position: preserve existing policies, but openness to many ideas, e.g. energy policy; R&D policy; innovation; education; social policy; employment policy; health policy; and migration policy	International cross-border projects in physical infrastructure
Budget size	Max 1% of EU GNI	Max 1% of EU GNI	Max 1% of EU GNI	Max 1% of EU GNI	Around 1% of EU GNI	At least 1% of EU GNI	At least 1% of EU GNI	At least 1% of EU GNI

Source: country papers

5 CONCLUDING REMARKS

Tamás Szemlér

Even though we are at an early phase of the review, the survey results and the country papers do allow us to draw some preliminary conclusions:[68]

1. While the need for fundamental change has been underlined by most responses and country papers, old sources of budgetary conflicts remain important. Therefore, old debates will probably continue; if not during the present review, then at the latest during the discussion on the Financial Framework beginning in 2014.
2. The budgetary net position is still very central in the line of thought of most Member States. A change in the long run is not inconceivable but it seems unlikely that it will be possible to deviate much from the present course in the near future. Of course, the review *is* an eminent occasion for change in spirit, but its results will not be binding in any sense for the Agenda 2014.
3. Fundamental changes in the own resources system seem to be difficult to achieve but major changes are conceivable: the issue of the UK's rebate seems to have reached a degree of maturity, bearing in mind that important changes are expected by almost everyone and – which is the really new element, in parallel with CAP reform – failure is not the only potential outcome.
4. Considerable shifts on the expenditure side have good chances. The main issues in this respect are the future reform of the CAP, Cohesion Policy and the reinforcement of the competitiveness objective. There are certain converging ideas regarding new expenditure items but a more detailed look reveals that most players probably base their thoughts on the status quo.
5. For most of the respondents of our survey, Treaty obligations with regard to a given issue, do not necessarily imply presence of that issue in the expenditure side of the EU budget. Additionality, subsidiarity and proportionality are thus perceived as important values.
6. There is no general division line between old and new Member States. This is a very important finding of our survey. Beyond their specific short or mid-term interests in catching-up economically, new Member States recognise the importance of being part of a strong EU; they are also aware that in the case of further enlargements, the CAP and Cohesion Policy in their present forms would entail a greater financial

[68] A more detailed presentation of these conclusions is provided in the executive summary.

burden for them, and would first of all benefit the future newcomers. Therefore new Member States seem to be open to reforms in the long run.

7. On a more general note, most groups of Member States are not homogeneous and therefore no general coalitions may be expected. This was already a well-known fact among the old EU15 and the same applies to the new EU12, as well. One exception might be the group of net recipient countries (the group of the "Rich 6" in our survey), although France and the UK may have special interests that divide this group as well.
8. As regards certain key issues there is a considerable gap between the ideas of researchers and policy-makers; the opinions on the optimal size of the EU budget showed this difference most clearly and illustrates very clearly the difference between "Agenda 2014" – i.e. the debate on the figures of the next mid-term Financial Framework – and the objectives of the budget review, which is about finding the optimal way for the long-term future of the EU budget.

On the basis of what has been said above, and referring to the questions included in the public consultation paper (tackled in section 2 of the present report), there are some general remarks and recommendations that are of key importance when thinking about the EU budget. These could be summarised as follows:

1. A crucial question is how to replace *juste retour* with a more constructive approach that better reflects the real gains and burdens stemming from the European integration process – at the same time keeping in mind that the EU budget is only one of the tools available in the EU toolbox. In order to achieve this, a new start that moves away from the *status quo* is a must.
2. In order to end the *juste retour* approach, the definition of policies of real common interest and the restructuring of EU expenditures could be the first two steps. Since the budget should be tailored to finance policies in fields where European value added is clear (i.e. where the EU level may be more efficient than the national level), these fields should first be identified.
3. Once the policies to be financed from the EU budget have been agreed, it is possible to estimate the financing needs (i.e. the size of the budget); the financing rules and the need for old and potential new resources can be established on this basis. It is important to establish a coherent system without ad hoc solutions.

4. Size seems at times not really to be part of the discussions, but, at least implicitly, it is very much present: most analysts and policy-makers think in terms of the current and actual size of the budget, which is roughly 1% of EU GNI, or 2.5% of Member States budgets. However, it is worth emphasising that if the EU budget finances "European projects" – policies with a clear European value added – it does not represent an additional burden on the Member States, since it substitutes spending for the same items in the national budgets – and does so with greater efficiency.[69]

According to these points, it is in principle possible to create a more modern EU budget that serves European interests, while at the same time getting rid of the *juste retour* system. One can argue with much credibility that this is no longer wishful thinking, taking present political reality into account. This said, if the EU really wishes to use the budget review as a golden opportunity and not as a routine exercise in a new, fashionable form, it is necessary to keep a distance from the *status quo*. In order to have a chance at a breakthrough during the review, European policy-makers should be open to new approaches and solutions.

[69] It is, of course, only valid when the European value added is really present. There may be other issues, where the policy may/should remain at the EU level, but financing could (at least partially) be (re)delegated to the national level. A typical and very much debated case is the CAP.

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APPENDIX

Box A1 Questionnaire

1. On a scale from 1 to 5 (5 being the best mark), how would you evaluate the present system of own resources from the point of view of

• financial autonomy?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• efficiency?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• transparency?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• sufficiency (of resources)?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• fairness of gross contributions?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5

2. On a scale from 1 to 5 (5 being the best mark), how would you evaluate the present expenditure structure of the EU budget from the point of view of

• adequacy?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• EU policies?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• effectiveness?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• efficiency?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5
• fairness?	❒ 1	❒ 2	❒ 3	❒ 4	❒ 5

3. In your view, what size of the EU budget (regarding payments) – in terms of percentage share of EU GNI – would best fit the interests of your country?
   ❒ 0-0.5 ❒ 0.5-0.75 ❒ 0.75-1.0 ❒ 1.0-1.25 ❒ 1.25-1.5 ❒ > 1.5
   If you chose > 1.5%, please specify the size if possible: .... % of EU GNI

4. What is your position regarding the present own resources system?
   ❒ Good as is, no modification necessary
   ❒ Should remain with minor modifications
   ❒ Major changes are needed
   ❒ Fundamental reform is a must

5. What is your position regarding the UK rebate and the other corrections of payments to the EU budget stemming from it?
   ❒ Good as is, no modification necessary
   ❒ Should remain with minor modifications
   ❒ A general correction mechanism should be introduced
   ❒ All corrections should be abolished

6. Your opinion regarding the possibility of introducing an EU tax *without* giving the budgetary authority taxation powers is

	❒ Positive		❒ Positive		❒ Positive
in < 10 years	❒ Negative	in > 10 < 20 years	❒ Negative	in > 20 years	❒ Negative
	❒ Neutral		❒ Neutral		❒ Neutral

7. Your opinion regarding the possibility of introducing an EU tax *giving* the budgetary authority taxation powers is

	❒ Positive		❒ Positive		❒ Positive
in < 10 years	❒ Negative	in > 10 < 20 years	❒ Negative	in > 20 years	❒ Negative
	❒ Neutral		❒ Neutral		❒ Neutral

8. On a scale from 1 to 5 (5 being the best mark), how would you evaluate the importance of the following expenditure items in the EU budget?

• Competitiveness for growth	❐ 1	❐ 2	❐ 3	❐ 4	❐ 5
• Cohesion for growth	❐ 1	❐ 2	❐ 3	❐ 4	❐ 5
• Common agricultural policy	❐ 1	❐ 2	❐ 3	❐ 4	❐ 5
• European citizenship	❐ 1	❐ 2	❐ 3	❐ 4	❐ 5
• The EU as a global partner	❐ 1	❐ 2	❐ 3	❐ 4	❐ 5

9. How would you evaluate the actual share of the following expenditure items in the EU budget? It should be

• Competitiveness for growth	❐ more	❐ less	❐ unchanged	❐ abolished
• Cohesion for growth	❐ more	❐ less	❐ unchanged	❐ abolished
• Common agricultural policy	❐ more	❐ less	❐ unchanged	❐ abolished
• European citizenship	❐ more	❐ less	❐ unchanged	❐ abolished
• The EU as a global partner	❐ more	❐ less	❐ unchanged	❐ abolished

10. Would you like to see new expenditure items in the EU budget?
❐ Yes. Please specify: ....
❐ No.

11. Do you consider the EU budget at its present structure to be able to deal with the needs of further enlargement(s) of the EU?
❐ Yes. ❐ No. Please specify: ....

12. To what extent do you think the present structure of the EU budget reflects the objectives of the EU laid down in the Treaty? Please evaluate on a scale from 1 to 5 (5 being the best mark).
❐ 1 ❐ 2 ❐ 3 ❐ 4 ❐ 5

13. It has been argued that *any* costs accrued to Member States as a consequence of their fulfilling the objectives laid down in the EC Treaty should be funded by the EU budget. Would you agree with this statement?
❐ Yes. ❐ No.

14. Do you consider the EU budgetary decision-making process optimal?
❐ Yes.
❐ No. Please specify whether you would prefer changes (multiple choices are allowed)
    ❐ in the annual decision-making;
    ❐ in the decision-making related to the financial perspective;
    ❐ in the voting rules in the Council;
    ❐ in the division of powers between the Council and the European Parliament;
    ❐ other. Please specify: ....

15. Do you think the 2008/9 review of the EU budget will lead to important changes?
❐ Yes, immediately.
❐ Yes, but only in the long run (after 2013).
❐ No.

If you have additional remarks that you consider to be important for the topic of the EU budget review, please share them with us! ....
....
....

Table A1 Sample distribution according to countries and categories of respondents

Country	Researcher	Policy-maker in country of origin	Policy-maker representing country of origin in an EU institution	Policy-maker in an EU institution	Other	Blank	**Total**
Austria	5	1	1	-	2	-	**9**
Belgium	-	-	-	1	-	-	**1**
Bulgaria	6	6	1	-	7	-	**20**
Cyprus	1	1	-	-	1	-	**3**
Czech Republic	13	2	3	2	1	-	**21**
Estonia	1	1	-	-	-	-	**2**
Finland	1	1	-	1	-	-	**3**
France	2	-	1	-	2	-	**5**
Germany	6	6	1	1	1	-	**15**
Greece	2	-	-	-	-	-	**2**
Hungary	9	1	-	1	3	-	**14**
Ireland	7	1	-	-	3	1	**12**

Country	Researcher	Policy-maker in country of origin	Policy-maker representing country of origin in an EU institution	Policy-maker in an EU institution	Other	Blank	**Total**
Italy	-	-	-	-	1	-	**1**
Latvia	-	1	-	-	-	-	**1**
The Netherlands	1	1	-	-	1	-	**3**
Poland	3	2	-	-	1	-	**6**
Portugal	1	-	-	-	-	-	**1**
Romania	9	-	-	-	-	-	**9**
Slovakia	1	3	-	-	2	-	**6**
Slovenia	1	1	-	-	-	-	**2**
Spain	16	3	-	-	-	-	**19**
Sweden	2	8	-	-	1	-	**11**
UK	1	-	-	-	-	-	**1**
Total	**88**	**39**	**7**	**6**	**26**	**1**	**167**

Table A2 Average and standard deviation values of some scale-evaluation results

Question 1	**Financial autonomy**	**Efficiency**	**Transparency**	**Sufficiency**	**Fairness**
Average	2.87	2.83	2.72	3.23	3.00
St.Dev.	1.161	0.997	1.244	1.311	0.936
Question 2	**Adequacy**	**EU policies**	**Effectiveness**	**Efficiency**	**Fairness**
Average	2.55	2.86	2.66	2.57	2.83
St. Dev.	1.021	0.958	0.906	0.866	0.975
Questions 4-5	**Own resources system**		**UK rebate**		
Average	2.77		3.24		
St. Dev.	0.808		0.815		
Question 8	**Competitiveness**	**Cohesion**	**CAP**	**EU Citizenship**	**EU as global partner**
Average	3.98	3.83	2.42	2.89	3.48
St. Dev.	1.138	1.168	1.318	1.228	1.243
Question 9	**Competitiveness**	**Cohesion**	**CAP**	**EU Citizenship**	**EU as global partner**
Average	1.39	1.83	2.35	2.11	1.86
St. Dev.	0.782	0.918	0.850	0.932	0.942
Question 12			**Extent of reflecting Treaty objectives**		
Average			3.01		
St. Dev.			0.806		

Question 3	Desired size of EU budget
Researchers	
Average	4.12
St. Dev.	3.738
Others	
Average	1.85
St. Dev.	0.720

Question 1	Financial autonomy	Efficiency	Transparency	Sufficiency	Fairness
Eastern					
Average	3.10	3.05	3.05	3.35	3.05
St.Dev.	1.088	0.910	1.216	1.193	0.857
Other EU					
Average	2.65	2.65	2.45	3.00	3.00
St.Dev.	1.062	0.792	0.921	1.304	0.949
Rich 6					
Average	2.49	2.35	2.00	3.57	2.95
St.Dev.	1.208	0.937	1.161	1.437	1.021
Southern					
Average	3.00	3.14	3.23	2.29	2.91
St.Dev.	1.168	1.179	1.041	0.933	0.996

Table A2 Average and standard deviation values of some scale-evaluation results (cont.)

Quesion 2	Financial Autonomy	Efficiency	Transparency	Sufficiency	Fairness
Eastern					
Average	2.66	3.18	2.76	2.77	2.90
St.Dev.	0.988	0.849	0.787	0.783	0.982
Other EU					
Average	2.79	2.58	2.79	2.47	3.11
St.Dev.	1.004	0.990	1.055	0.881	1.119
Rich 6					
Average	2.33	2.60	2.45	2.16	2.45
St.Dev.	1.115	0.893	0.931	0.805	0.931
Southern					
Average	2.36	2.45	2.59	2.77	3.05
St.Dev.	0.828	1.033	1.030	0.950	0.638

Questions 4-5	Own resources system	UK rebate
Eastern		
Average	2.72	3.12
St. Dev.	0.766	0.862
Other EU		
Average	2.65	3.42
St. Dev.	0.654	0.674
Rich 6		
Average	2.93	3.44
St. Dev.	0.889	0.658

Southern		
Average	2.73	3.14
St. Dev.	0.862	0.919

Question 8	**Competitiveness**	**Cohesion**	**CAP**	**EU citizenship**	**EU as global partner**
Eastern					
Average	4.10	4.14	2.65	3.10	3.45
St. Dev.	1.105	1.095	1.367	1.112	1.173
Other EU					
Average	4.00	3.79	2.89	2.11	3.16
St. Dev.	1.214	1.055	1.293	0.852	1.182
Rich 6					
Average	3.86	3.30	2.02	3.10	3.77
St. Dev.	1.231	1.172	1.248	1.324	1.178
Southern					
Average	3.73	3.77	1.95	2.45	3.27
St. Dev.	0.914	1.125	0.878	1.305	1.513

Question 9	**Competitiveness**	**Cohesion**	**CAP**	**EU citizenship**	**EU as global partner**
Eastern					
Average	1.38	1.83	2.36	2.18	1.99
St. Dev.	0.755	0.953	0.891	0.957	0.954
Other EU					
Average	1.21	1.68	2.16	2.42	1.89
St. Dev.	0.521	0.862	0.670	0.748	0.968

Table A2 Average and standard deviation values of some scale-evaluation results (cont.)

Question 9 (cont.)	Competitiveness	Cohesion	CAP	EU citizenship	EU as global partner
Rich 6					
Average	1.45	2.02	2.49	1.98	1.65
St. Dev.	0.905	0.876	0.899	1.012	0.912
Southern					
Average	1.45	1.59	2.23	1.86	1.77
St. Dev.	0.782	0.834	0.670	0.694	0.849
Question 12			**Extent of reflecting Treaty objectives**		
Eastern					
Average			3.22		
St. Dev.			0.691		
Other EU					
Average			3.00		
St. Dev.			0.707		
Rich 6					
Average			2.65		
St. Dev.			0.860		
Southern					
Average			3.00		
St. Dev.			0.905		

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