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The New Member Countries in the New Multiannual Financial Framework 2007-2013

The new priorities of the Union, politically agreed upon by all member states are to assure sustainable growth, improvement of the global competitiveness of the European economy and strengthening of our security. The implementation of these priorities coincide with the necessity of successful incorporation to the Union ten new much poorer countries. The enlargement has good chances to become a great political and economic success. However, in order to succeed equality and solidarity which are two cardinal rules of economic integration have to be fully observed.

The aim of my notes and comments is to verify whether the Commission's proposal for the new Financial Perspectives 2007-2013 meets the well founded expectations of new members concerning equality and solidarity. It is a matter of primary importance as the accession terms that the EU has imposed on 10 new member countries (NMC) do not meet these two principles of integration. In order to prove this statement I will focus on structural policy only, leaving out agriculture as the accession conditions for it are defined till 2013.

A reliable measure of solidarity in the EU is the access to support from the Structural Funds. Equal rights for all members of the EU result from the logic of a single, common, internal market. The members and their regions which fulfil the specific criteria should have equal access to aid from the Structural Funds .

Agenda 2000 provided that in the period 2004-2006 six new member states will receive a total of 30 milliard euro from the EU budget for structural action. Eventually, not six but ten countries were admitted, however the commitments were reduced to under 22 milliard euro.

"We're getting enlargement cheaper than we thought we would", European Enlargement Commissioner Günter Verheugen told the European Parliament foreign affairs committee on January 23. He confirmed that the final deal agreed at Copenhagen was €1.7 billion less than the maximum ceiling fixed by Berlin for commitments in 2004-2006, and €9.4 billion less than the maximum available payments. And of the €25.1 billion in payments for the period, €14.8 billion would be covered by new member states' contributions, so the net cost for the EU15 would be €10.3 billion, he said."

Enlargement: Weekly Newsletter 28 January 2003

Taking into account the first two full years of membership 2005-2006 the 10 NMC are entitled to receive for structural actions -in payments 49.60 euro p.c./ p.a. and in commitments 105.72 euro p.c./p.a. while the transfers available for regions of EU "15" under Objective 1 in the years 2000-2006 are 231.46 euro p.c./p.a.[1]

The net transfers from the UE budget to 10 NMC in the years 2005-2006 are 52.5 euro p.c./p.a. or 0.7% of their GNP

In the years 2000-2003 net transfers from the EU budget to Spain amounted to 191 euro p.c. or 1.16% of GNP/GNI on average p.a, for Greece was 381 euro p.c. or 2.91% of GNP/GNI, for Portugal 247 euro p.c. or 2.06% of GNP/GNI and for Ireland 396 euro p.c. or 1.46% of GNP/GNI.

One may, however, assume that the financial dimension of Community policies in the accession countries for 2004-2006 has been defined prudently with conviction that the NMC should learn first how to absorb EU funds efficiently. Now, after half a year of full membership we may notice that these misgivings were overexaggerated. In case of Poland the funds available for structural action are far less than a half of the money needed to satisfy all eligible projects. It may serve as relible evidence that the new member states will be able to absorb structural aid in the years after 2006 both in the size and kind as it is provided for structural actions presently for the regions of old members. The lessons of PHARE, ISPA and SAPARD were not in vain.

The enlargement of the EU is a win-win game. The new members will develop faster and the old ones will benefit from quickly growing extension of the single market. Both old and new members have already benefited enormously from intensification of trade and capital flows resulted first from the European Agreements. The first effects of integration are best seen in foreign trade, as the process of integration begins with lifting trade restrictions. Between 1993 and 2003 cumulative trade surplus of EU "15" with 12 candidate countries was 205 milliards euro. For last three years the size of the surplus has stabilised on about 20 milliards euro a year. A permanent surplus on the side of the "15" means employment for several hundred thousand people. The trading effects that have been already achieved does not obviously exhaust possible benefits.

A presentation of the costs and benefits of EU enlargement leads often to a certain political misinterpretation. The costs are easy to quantify while the benefits are not. Development aid

[1] all calculations are based on figures published by Commission

is paid out of EU budget so its value is precisely defined. On the other hand, benefits of integration are mainly realised by businesses. It is more difficult to count their profits from integration. For that reason some politicians tend to present the public with a view that budgetary transfers in favour of the poorer countries are the only real effects of admitting new countries to the EU. Treating the budgetary expenditure as costs of enlargement in abstraction from the benefits of enlargement becomes thus a kind of a political manipulation. Certainly, the real effects of integration are being analysed and the outcomes are known, but those who benefit most are least eager to talk about it.

Several studies on economic impact of enlargement on old members of the EU completed in the years preceding accession of the 10 new members indicate that the benefits to EU 15 from enlargement are, in monetary terms¸ much greater than the expenditure incurred by EU budget in relation to the new members[1].

However, the distribution of effects across old member countries substantially differ. Germany and Austria, the states which have common boundaries and more intensive economic links with the new members, have been enjoying over-proportionally bigger economic gains that resulted first from European Agreements and now benefit from the accession. European Commission Study[1] estimates the overall welfare gains effect of enlargement to Germany at about 0.4 per cent of GDP annually., i.e on average 8.8 milliard euro. The same study estimates similar increase in GDP growth for Austria.

Taking into account the economic benefits of enlargement, the increase in payments to the EU budget resulting from the enlargement for the countries which are currently net contributors will be very modest even if hitherto existing rules of structural policy are maintained in the years ahead. The more so, as cohesion policy reinforces the economic growth of the entire Union.

The NMC expect to benefit equally from European Union common policies that result in supporting the development of poorer members and regions. **The NMC have the right to expect therefore that structural policy rules observed at the time when the new members**

[1] see for example : *Enlargement papers, The economic impact of enlargement* by Directorate General for Economic and Financial Affairs, June 2001, F. Breuss, *Macroeconomic Effects of EU Enlargement for Old and New Members*, WIFO Working Papers, No.143, Vienna March 2001, P.Havlik, EU *Enlargement: Economic impacts on Austria and the Five Acceding Central European Countries,* WIIW, Research Reports No.290, October 2002, C. Keuschnigg, W. Kohler, Eastern Enlargement of the EU: Economic Costs and Benefits for the Present Member States? European Commission Study XIX/B1/9801, September 1999, W. Quaiser,M.Hartman,E.Honekopp,M.Brendenmeier*, Die Osterweiterung der Europaischen Union: Konsequenzen fur Wohlstand und Beschaftigung in Europa*, F.Ebert Stiftung, March 2000,

were admitted to the Union, will not turn out to be less favourable just after their admission.

If the maximum level for structural policy transfers to a member country of 4% of its nominal GDP is maintained, the NMC can expect the annual commitments up to about 24 milliard euro on average in the years 2007-2013. According to the unofficial data, the Commission estimation, which do not consist funds for rural development, amounts to 23.140 million euro a year for NMC in the financial framework for 2007-2013 (162 milliard in the years 2007-2013). These figures should certainly satisfy the NMC expectations and should be regarded as the boundary conditions of NMC in the negotiations concerning the new financial framework for 2007-2013. The NMC should also be satisfied with Commission proposal to provide 9 milliard euro a year for funding from Cohesion Fund. The NMC participation in funding from this source should be about 80% or about 7 milliard euro a year. The need for the kind of investment which can be financed from the Cohesion Fund in NMC is bigger than in old members that are still eligible to receive Cohesion Fund support. Therefore, a relative increase in funding from the Cohesion Fund from about 40 euro p.c. available to Spain, Greece and Portugal in the years 2000-2006 to about 70 euro p.c. a year is fully justified.

If the figures concerning the NMC quoted above are accepted by the European Parliament and the Council, the NMC should be open to discuss all other sensitive issues of multiannual financial framework concerning the years 2007-2013.

[1] C. Keuschnigg, W. Kohler, Eastern Enlargement of the EU: Economic Costs and Benefits for the Present

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The concept of solidarity

The budget of the EU serves funding various specific policies, programmes and actions in accordance with the Treaties or agreed upon by the Member States. However, it is also the basic instrument serving the implementation of solidarity as the fundamental principle of economic integration.

The process of economic integration means a gradual abolishment of economic barriers among the countries which have decided to integrate their economies. The theory of economy explains that economic integration increases the wealth of all participants resulting from growing trade between them and creation of common market. Specialization in production, effect of scale, decrease of transaction costs improve the efficiency of enterprises. A single, common market improves allocation and promotes faster technological progress.

Economic mechanism of integration increases the wealth of the entire system to be integrated but the differences in the level and structure of economic development lead to a situation where the current benefits of integration are very unevenly distributed in time and in space among countries, regions and enterprises. The better developed countries are first to benefit more in real terms. Capitalising on the new market opportunities is much easier for modern companies with a strong capital base.

The level of development of the countries and regions belonging to the European Community is very differentiated. Therefore, a precondition for the establishment, sustainability and efficient functioning of the integration system was to adopt the principle of solidarity, which is manifested in equalising the benefits. This involves transfering of a part of the income from those who benefit most to those countries that benefit less from integration in real terms for some time. The mechanism favours general development and mitigates social conflict. In order to implement the principle of solidarity the European Communities use common budget for financing policies supporting economic growth in the poorer countries. The richer countries pay more into the budget than they receive but it should be stressed that they owe part of their increased prosperity to integration with poorer countries. The quicker development of poorer countries the richer countries benefit more. Thus, net transfers out of the EU budget are not a gesture of generosity of the rich to the poor, but means that is

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Member States? European Commission Study XIX/B1/9801, September 1999 necessary to sustain and to deepen economic integration, to strengthen and sustain the development processes in the entire group and increase its wealth.

To recall that solidarity in case of integration is not only an ethical concept but it has economic dimension is fully justified in time when the financial framework for 2007-2013 is decided since the Commission points out in various documents that some Member States adopt a narrow *juste retour* stance in discussing the budgetary matters.

"*Member States, in particular net contributors, tend to judge the merit of new Community initiatives exclusively in terms of their financial consequences with little regard to the substance of policies, leading to the risk of obscuring the added value of EU policies*."

Financing the European Union, Commission report on the operation of the own resources system, vol.I, vol.II , Technical Annex, 14.7.2004, COM (2004) 505 final, p.41

"*Where the Union intervenes in regions in difficulty, through the Structural and Cohesion Funds, it is to act upon the causes of regional disparities. In other words, this policy has not only a <u>redistributive</u> character, in that it transfers resources from the richest States and regions of the Union to the poorest ones. It has also an <u>allocative</u> function, permitting less favoured States and regions to maintain high levels of investment in physical and human capital in order to improve their competitiveness and their growth potential and to promote sustainable development.*"

EC Working Document of the European Services, Multiannual Financial Framework 2007-2013, Fiche no.23 EN

The solidarity principle was always present in the practice of constructing the European Communities and of creating the Common Agricultural Policy and Regional Policy, as well as in extending those mechanisms to the poorer countries subsequently joining the Communities - Ireland, Greece, Portugal and Spain. The accession of Spain and Portugal has been accompanied by substantial increase of Structural Funds. Later in order to help poorer countries to cope with competitive pressure of the single market and prospected Monetary Union the Communities established the Cohesion Fund.

Now, after the biggest enlargement with much poorer countries, which will double regional disparities in the EU the budget of the EU must be adequately designed. The enlargement of the UE is a win-win game. The new members will have support resulting in faster development in terms of GDP growth and the old ones will benefit from new and quickly growing extension of the single market.