The financial perspectives and the structural funds

In June 2005 the European Council proved unable to adopt the new financial perspectives for the period 2007-2013. This setback, coming soon after the rejection of the European Constitution in both France and the Netherlands, highlighted the difficulty of devising funding priorities for the enlarged Union and, hence, exacerbated the existential crisis and growth pangs afflicting the Union. Following on from the budget cuts decided by the Berlin European Council in 1999, the European Commission’s proposals represented a compromise between those who backed a thorough overhaul of EU spending in favour of “future-oriented” expenditure and those who defended the goal of economic and social cohesion in the enlarged Europe. In 2002 the European Council had frozen the level of resources available to fund the Common Agricultural Policy (CAP) until 2013. It was feared under these circumstances that the so-called cohesion policy might become the adjustment variable of negotiations in 2005. The agreement reached in December 2005 heightens the budgetary austerity initiated in 1999 while paving the way towards reforming the structure of the budget on both the revenue and expenditure sides. In this chapter we shall begin by looking at the complex negotiations which resulted in that agreement for the period 2007-2013. We shall then examine in detail the future of the European economic and social cohesion policy.

1. The 2007-2013 financial framework

Two factors influenced the thinking behind the 2007-2013 financial framework: first of all, the Sapir report drawn up by a group of experts at the request of Romano Prodi, President of the European...
Commission. This report, entitled “An agenda for a growing Europe: making the EU economic system deliver”, was critical of the effects of the cohesion policy and the CAP. It called into question the structure of the EU budget, which it said should be remodelled by renationalising the CAP and reassessing the principles behind the Union’s cohesion policy (Sapir et al., 2004). Under the proposed system, the EU budget should be completely restructured and limited to 1% of gross national income (GNI) in commitment appropriations. EU expenditure should also be redirected towards enhancing competitiveness.

Secondly, the six main “net contributors” to the EU budget (Germany, France, the UK, the Netherlands, Austria and Sweden) sent a letter to Mr Prodi, the Commission President, in December 2003. In their view, expenditure in 2007-2013 “should add real value, and aim more actively at transforming the EU into the most competitive and innovative area worldwide. Other key tasks are further developing the Common Foreign and Security Policy, protecting our external borders (…)”. Spending should not exceed 1% of GNI, “including agriculture spending within the ceiling set by the European Council in October 2002” (Gaillard and Sutour, 2004: annexe 4). This initiative underpinned the logic of a “fair return” (Le Cacheux, 2005) and is an accountancy-based approach to the European budget.

1.1 The “fair return”

A bit of background is needed to understand the notion of fair return. Back in the early 1980s, traditional own resources proved inadequate to fund the European budget on account of a fall in revenue from customs duties – linked to international trade talks at the GATT, precursor of the World Trade Organisation (WTO) – and due to the cost of the CAP. After the United Kingdom acceded to the Communities in 1973, the British government pointed out that its contribution to the budget greatly exceeded its share of Community expenditure. Agricultural spending accounted for 60% of the budget at the time, and the UK derived little benefit from that expenditure whilst making a substantial contribution to the budget owing to the proportion of gross national product (GNP) represented by VAT. That was the first “fair return” crisis, symbolised by Mrs Thatcher’s alleged cry of “I want my money back”. The Fontainebleau European Council of June 1984 solved the problem by
granting the UK a “rebate”. It also recognised the principle that “any Member State” may apply for a general correction to its contribution. Such a correction would be granted on two conditions: the scale of the budgetary imbalance (“excessive”) and the wealth of that Member State compared with the EU as a whole (“relative prosperity”). Several other countries have since become “net contributors”. Since the introduction of traditional own resources (TOR) and of an additional funding stream based on Member States’ GNP/GNI, the proportion of resources based on GNI has risen steadily. From 29.6% in 1996 it rose to 74.5% in 2005 (see table 1). The structure of the Community budget is therefore based mainly on the payment of national contributions (VAT revenue and GNI). The preparation of the financial perspectives was dominated by the “fair return” logic, which fuelled the controversy to such an extent that it caused the Dutch people to reject the Union. Indeed, the Netherlands’ excessive contribution to the EU budget is regarded as one reason why the European Constitution came to grief.

Table 1: The composition of EU own resources
(in % of total own resources; cash basis)

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</tr>
</thead>
<tbody>
<tr>
<td>TOR</td>
<td>19.1</td>
<td>18.8</td>
<td>17.2</td>
<td>16.8</td>
<td>17.4</td>
<td>18.1</td>
<td>11.9</td>
<td>13.0</td>
<td>12.0</td>
<td>11.4</td>
</tr>
<tr>
<td>VAT</td>
<td>51.3</td>
<td>45.5</td>
<td>40.3</td>
<td>37.8</td>
<td>39.9</td>
<td>38.7</td>
<td>28.8</td>
<td>25.4</td>
<td>14.6</td>
<td>14.1</td>
</tr>
<tr>
<td>GNP/GNI</td>
<td>29.6</td>
<td>35.7</td>
<td>42.5</td>
<td>45.4</td>
<td>42.7</td>
<td>43.2</td>
<td>59.3</td>
<td>61.6</td>
<td>73.4</td>
<td>74.5</td>
</tr>
<tr>
<td>Total own resources (€ billion)</td>
<td>71.1</td>
<td>75.3</td>
<td>82.2</td>
<td>82.5</td>
<td>88.0</td>
<td>80.7</td>
<td>77.7</td>
<td>83.6</td>
<td>93.3</td>
<td>108.5</td>
</tr>
</tbody>
</table>

1 As from 2002, the % of TOR retained by Member States as a compensation for their collection costs was raised from 10% to 25%. This difference represented about €2.2 billion in 2002 as well as in 2003.
3 Preliminary draft budget 2005.

1.2 The 2007-2013 financial perspectives

1.2.1 The Commission’s proposals in 2004

The Commission put forward two main ideas in a Communication published in February 2004 entitled “Building our common future” (CEC, 2004b). Firstly, the budget should be capped at an average of 1.14% of Community GNI in payment appropriations, i.e. a ceiling higher than that demanded by the “six net contributors”. The difference between 1.14% and 1% may seem insignificant, but we should bear in mind that every 0.1% of EU GNI represents €10 billion. The Commission was therefore calling for a greater overall budget than the six, but without raising the current own resources ceiling of 1.24% of GNI. With respect to economic and social cohesion, this would mean re-allocating aid between the regions of the new Member States and the poorest regions of the Fifteen (mainly in the so-called cohesion countries of Portugal, Greece and Spain, whose per capita GDP is less than 90% of the EU15 average). The number of budget headings was reduced to five, reflecting the Union’s major policy objectives, namely promoting competitiveness and cohesion for sustainable growth; sustainable management and protection of natural resources; citizenship and the area of freedom, security and justice; the Union’s role in the world; and administrative expenditure. The table showing the financial perspectives was subsequently updated (CEC, 2005a).

New structure of the financial perspectives
(Commission proposal)

<table>
<thead>
<tr>
<th>Heading 1: sustainable growth, including competitiveness for growth and employment (heading 1a) and cohesion for growth and employment (heading 1b). The funds available under this heading in commitment appropriations would rise by 62.8% in 2013 as compared with the forecast for 2006, including an increase of 32% for the old regional policy and 212% for activity in the fields of research/development and employment. Commitment appropriations under this heading would constitute 46% on average of the total Community budget for 2007-2013.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heading 2: sustainable management and protection of natural resources (including agricultural expenditure). Agricultural funding would be reduced by 3% between 2006 and 2013, and this expenditure would decrease from 37% of the budget in 2006 to 26% in 2013.</td>
</tr>
</tbody>
</table>
The financial perspectives and the structural funds

Heading 3: **citizenship, freedom, security and justice.** The overall budget would increase by 182% between 2006 and 2013, rising from €1.381 billion in 2006 to €3.620 billion in 2013.

Heading 4: **the EU as a global partner.** Funding would rise by 38% from 2006 to 2013, i.e. from €11.232 billion in 2006 to €15.740 billion in 2007.

Heading 5: **administration.**

The European Development Fund (EDF), which accounts for 0.03% of EU GNI (gross national income), is incorporated into heading 4 and the Solidarity Fund for natural disasters into heading 1b).

The Commission proposed payments of 1.14% (€943 billion) and commitments of €1,022 billion.

By way of a response to the demands of the “six net contributors”, the Commission suggested introducing a generalised correction mechanism based on the UK correction. As concerns the British rebate, the Commission recalled that the reasons why the United Kingdom alone was granted a correction were less pertinent now than at the time of the Fontainebleau European Council, since several other Member States could now legitimately claim to be in a comparable situation to the UK. It would seem unjustifiable to grant London a correction, especially in view of the fact that – according to the Commission’s estimates – the correction would turn the UK (along with Finland) into the smallest net contributor to the EU budget during the period 2007-2013, even though it is one of Europe’s most prosperous countries. That is why the Commission proposed generalising the correction mechanism, which would be triggered for any Member State once it reached a certain threshold expressed as a percentage of GNI (CEC, 2004c). Such a system may appear at first sight to conflict with the principle of equity and solidarity among Member States. The new Member States, whose average revenue equals less than half of that of the six net contributors, wondered whether they would have to hand back to those wealthier countries a share of what they had received from the EU budget.

As regards the system of own resources, the Commission announced that it would not be making any proposals for the period 2007-2013. In the face of criticism, for example that the system was over-complex and
lacking in transparency, it was of the opinion that contributions based on GNI could perhaps be replaced by a visible fiscal resource payable by EU citizens and/or businesses. Three hypotheses were aired, none of which would increase the tax burden on citizens: a tax on corporate income; a genuine VAT resource; an energy tax.

1.2.2 Position of the European Parliament

The European Parliament adopted a resolution on the Union’s financial perspectives ahead of the June 2005 European Council (European Parliament, 2005a). The figures put forward in the Böge report (PPE/DE, DE) were 1.18% of GNI in commitment appropriations (€975 billion over the seven years) and 1.07% of EU GNI in payment appropriations, or €883 billion over the seven years. Unlike the Commission, the Parliament chose not to incorporate the European Development Fund (EDF, €21.876 billion), which is currently outside the Community budget, into the financial framework. The MEPs felt that other policies should not lose out through the incorporation of the EDF. On the grounds that creating a flexibility reserve was a non-negotiable element of the agreement, the Parliament proposed setting that overall flexibility at 0.03% of GNI. A certain number of reserves should, in its view, be created outside of the financial framework, so as to be able to confront situations which are unforeseen or hard to plan for in advance (cohesion, emergency aid, solidarity fund, guarantee fund) and to facilitate the EU’s economic adaptation in terms of competitiveness. (This would be done by establishing a competitiveness reserve, endowed with a maximum of €7 billion, replacing the Growth Adjustment Fund proposed by the Commission – see Box. Those monies could be used to strengthen growth and competitiveness and to enable the Union to react to economic change.) There should also be reserves for cohesion (€3 billion), emergency aid (€1.5 billion) and the Solidarity Fund (€6.2 billion). The Parliament also called for both the loan guarantee reserve (€3 billion) and the flexibility reserve (increased by €500 million to €3.5 billion) to be maintained, but outside of the financial perspectives.
The Growth Adjustment Fund

In its Communication on the financial perspectives the Commission justified the establishment of this Fund as follows: “A more pro-active approach to competitiveness will be provided by the creation of a Growth Adjustment Fund. Each year, when the Union assesses progress in the implementation of the Lisbon strategy at the Spring European Council, it could channel resources, if necessary, to boost particularly effective initiatives to accelerate progress in objectives running behind schedule (such as TENs or large environmental or research projects) or help respond to unexpected shocks – such as trade disputes or unexpected consequences of trade agreements, or exceptional calls for urgent actions like, for instance, the necessity to top up financial needs to carry out nuclear decommissioning obligations without delay. The Fund would not require a separate instrument: it would use existing programmes and delivery mechanisms” (CEC, 2004d: 15).

In its Communication entitled “Restructuring and employment. Anticipating and accompanying restructuring in order to develop employment: the role of the European Union” (CEC, 2005b), the Commission once again defended the establishment of this Fund which several Member States did not want (Council of the European Union, 2004: 19 and 2005a: 3).

1.2.3 Failure of the June 2005 European Council

Just a few days after the two unsuccessful referendums in France and the Netherlands, the President of the European Council, Jean-Claude Juncker, suffered a fresh setback. The Luxembourg presidency’s compromise proposal earmarked 1.06% in commitment appropriations (roughly €873 billion) (Council of the European Union, 2005b) and 1% of GNI in payments. As for own resources, it proposed freezing the British rebate at €4.6 billion in 2007 and then decreasing it gradually so as to meet the concerns of the three largest net contributors (Germany, the Netherlands and Sweden). Luxembourg’s proposals were supported by most delegations, and the negotiations ran aground not so much on the level or distribution of this expenditure as on the way in which it was to be funded. France demanded that the British rebate be abolished; the United Kingdom wanted the review of CAP funding to begin in 2009, contrary to the decision reached by the European Council in October 2002. Two net contributors, the Netherlands and Sweden, backed the UK, as did Spain, thereby causing deadlock. The principle of scaling down the financial allocation for research and development was already included in the Luxembourg compromise.
1.3 The Commission's proposals of October 2005

In its fresh proposals, put forward on 20 October in the run-up to the informal European Council at Hampton Court (under the UK presidency), the Commission appealed urgently for an agreement to be reached in December 2005. The proposals contained no figures but pressed the point that the cohesion policy should account for at least a third of funding under the “new” Lisbon strategy focusing on the objectives of growth and employment. The Commission again proposed the establishment of a growth adjustment fund, now renamed “Globalisation Adjustment Fund”. Its aims would be specific: the Fund would finance training and the redeployment or reintegration of workers, i.e. the costs of activities serving to find a new job. But not all forms of restructuring would be budgeted for; this would be a crisis mechanism designed to compensate only for economic and social shocks resulting from globalisation. It would not be triggered until a set proportion of workers in the sector and region concerned had suffered redundancy, and account would also be taken of the local unemployment level. This Fund would not form part of the financial framework (as had been demanded by the European Parliament and as is already the case for the Solidarity Fund); its use would be purely needs-based. The decision to draw on it would be taken by the Parliament and Council together. British Prime Minister Tony Blair endorsed this plan.

Other aspects concerned compliance with the commitments made by the Fifteen in 2002 regarding agriculture, namely that CAP expenditure would be set in stone until 2013 and that the 2003 reform would be followed through. According to the Commission, however, the 1% per year acceleration in the redirection of funding earmarked for direct aid to farmers towards rural development as from 2009 should free up additional resources and have a direct impact on growth and employment in rural communities. These monies would also help fund NATURA 2000, the Union’s nature conservation network. The Commission likewise proposed carrying out a complete review of all the organisational aspects of its budget – expenditure, revenue and structure – and promised to publish in 2009 a White Paper on modernising expenditure and revenue. Finally, with a view to meeting the Union’s commitments in respect of the Millennium Development
Goals, the Commission requested an overall budgetary sum higher than that contained in the last Luxembourg presidency compromise.

1.3.1 The UK presidency’s proposals

A media campaign was launched against the CAP just a few days ahead of the European Council in December 2005. It claimed that CAP financial aid, especially in France and the UK, benefited large-scale producers and even big agri-food businesses, not small farmers. In the absence of reliable data about such finance operations, these concordant press reports brought discredit on future funding of the CAP – especially as, at the WTO, the Member States had offered to slash their subsidies to farmers. Before its proposal was aired, the UK suggested reviewing the CAP in 2009.

The UK presidency’s initial proposals, circulated in early December, were designed to build the financial perspectives around the preservation of its rebate. This would be done to the detriment of funding earmarked for the new Member States, by scaling back the structural funds. Total expenditure (in commitment appropriations), calculated on the hypothesis that the Union will have 27 members as from 2007, would be €846,754 million or 1.03% of EU GNI: more than €10 billion less than the amount contained in the last costed proposals put forward by the Luxembourg presidency. These proposals were rejected both by the President of the Commission and by the European Parliament, whose approval of the financial perspectives is vital for renewal of the interinstitutional agreement on budgetary discipline. It is noticeable that the figures for expenditure to fund the CAP were those of the Luxembourg presidency. These were in line with the October 2002 decision on CAP funding up until 2013, and incorporated the €6 billion allocated under the CAP for Bulgaria and Romania. The 14 December proposal maintained the cut in the cohesion policy and allocated a sum of €849,303 (instead of 846,754) million in payment appropriations.
1.3.2 Financial perspectives adopted by the European Council in December 2005

The main adjustment variables of the 2007-2013 financial framework were the maintenance of a minimum amount of cohesion policy expenditure and the British rebate. This translated into the level of spending approved under the “sustainable growth” heading of objective 1b – “cohesion for growth and employment” – and the country-by-country breakdown in the financial perspectives.

The financial perspectives eventually adopted by the European Council in December comprise an amount of €862.4 billion (in commitment appropriations), or 1.045% of GNI of the EU27 (the present 25 plus Romania and Bulgaria) (Council of the European Union, 2005c). This represents 0.99% of GNI on average in payment appropriations. In June 2005 Luxembourg had proposed €871.5 billion (in commitment appropriations), or 1.06% of GNI; the European Commission’s initial proposal had been €1,022 billion. The budget for 2006 is €121.2 billion in commitment appropriations, which represents 1.09% of Community GNI and €111.9 billion in payment appropriations (1.01% of EU GNI).

The Brussels European Council set the cohesion policy allocation at €307.6 billion for the seven years of the financial perspectives (compared with €309.4 billion proposed by the Luxembourg presidency and €338.7 billion by the Commission). The European Council moreover acknowledged the inadequacy of the sum earmarked for external action and called on “the Budgetary Authority to ensure a substantial increase in the Common Foreign and Security Policy budget from 2007”.

The sums shown in the table below do not include the European Development Fund, which will be endowed with an amount of €22,682 billion for the period 2008-2013 based on national contributions.
### Table 2: Financial perspectives 2007-2013: Brussels European Council agreement (15-16 December 2005)

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</thead>
<tbody>
<tr>
<td>1. Sustainable Growth</td>
<td>51 090</td>
<td>52 148</td>
<td>53 330</td>
<td>54 001</td>
<td>54 945</td>
<td>56 384</td>
<td>57 841</td>
<td>379 739</td>
</tr>
<tr>
<td>1a. Competitiveness for Growth and Employment</td>
<td>8 250</td>
<td>8 860</td>
<td>9 510</td>
<td>10 200</td>
<td>10 950</td>
<td>11 750</td>
<td>12 600</td>
<td>72 120</td>
</tr>
<tr>
<td>1b. Cohesion for Growth and Employment</td>
<td>42 840</td>
<td>43 288</td>
<td>43 820</td>
<td>43 801</td>
<td>43 995</td>
<td>44 634</td>
<td>45 241</td>
<td>307 619</td>
</tr>
<tr>
<td>2. Preservation and Management of Natural Resources</td>
<td>54 972</td>
<td>54 308</td>
<td>53 652</td>
<td>52 021</td>
<td>52 386</td>
<td>51 761</td>
<td>51 145</td>
<td>371 244</td>
</tr>
<tr>
<td>of which: market related expenditure and direct payments</td>
<td>43 120</td>
<td>42 697</td>
<td>42 279</td>
<td>41 864</td>
<td>41 453</td>
<td>41 047</td>
<td>40 645</td>
<td>293 105</td>
</tr>
<tr>
<td>3. Citizenship, freedom, security and justice</td>
<td>1 120</td>
<td>1 210</td>
<td>1 310</td>
<td>1 430</td>
<td>1 570</td>
<td>1 720</td>
<td>1 910</td>
<td>10 270</td>
</tr>
<tr>
<td>3a. Freedom, Security and Justice</td>
<td>600</td>
<td>690</td>
<td>790</td>
<td>910</td>
<td>1 050</td>
<td>1 200</td>
<td>1 390</td>
<td>6 630</td>
</tr>
<tr>
<td>3b. Citizenship</td>
<td>520</td>
<td>520</td>
<td>520</td>
<td>520</td>
<td>520</td>
<td>520</td>
<td>520</td>
<td>3 640</td>
</tr>
<tr>
<td>4. EU as a global player</td>
<td>6 280</td>
<td>6 550</td>
<td>6 830</td>
<td>7 120</td>
<td>7 420</td>
<td>7 740</td>
<td>8 070</td>
<td>50 010</td>
</tr>
<tr>
<td>5. Administration</td>
<td>6 720</td>
<td>6 900</td>
<td>7 050</td>
<td>7 180</td>
<td>7 320</td>
<td>7 450</td>
<td>7 680</td>
<td>50 300</td>
</tr>
<tr>
<td>6. Compensations</td>
<td>419</td>
<td>191</td>
<td>190</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total appropriations for commitments</td>
<td>120 601</td>
<td>121 307</td>
<td>122 362</td>
<td>122 752</td>
<td>123 641</td>
<td>125 055</td>
<td>126 646</td>
<td>862 363</td>
</tr>
<tr>
<td>as a percentage of GNI</td>
<td>1.10%</td>
<td>1.08%</td>
<td>1.06%</td>
<td>1.04%</td>
<td>1.03%</td>
<td>1.02%</td>
<td>1.00%</td>
<td>1.045%</td>
</tr>
<tr>
<td>Total appropriations for payments</td>
<td>116 650</td>
<td>119 535</td>
<td>111 830</td>
<td>118 080</td>
<td>115 595</td>
<td>119 070</td>
<td>118 620</td>
<td>819 380</td>
</tr>
<tr>
<td>as a percentage of GNI</td>
<td>1.06%</td>
<td>1.06%</td>
<td>0.97%</td>
<td>1.00%</td>
<td>0.96%</td>
<td>0.97%</td>
<td>0.94%</td>
<td>0.99%</td>
</tr>
<tr>
<td>Margin available</td>
<td>0.18%</td>
<td>0.18%</td>
<td>0.27%</td>
<td>0.24%</td>
<td>0.28%</td>
<td>0.27%</td>
<td>0.30%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Own Resources Ceiling as a percentage of GNI</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
</tr>
</tbody>
</table>

**Source:** Council of the European Union (2005c).
Resources

The own resources ceiling determines the maximum sum for EU budget revenue and is set by a decision of the Council. The ceiling will be kept at its level under the decision currently in force (Council of the European Union, 2000), namely 1.24% of Community GNI for payment appropriations and 1.31% for commitment appropriations.

The UK rebate will be reduced by €10.5 billion out of an estimated total of between €50 and 55 billion if it had remained unchanged. The compromise excludes from the calculation of the rebate a percentage of regional aid for the new Member States, which will gradually rise to 100% over the course of the period.

The rate of call of the VAT resource (in effect the uniform rate) is fixed at 0.30%. Three net contributors will enjoy temporary relief: the rate will be 0.225% for Austria, 0.15% for Germany and 0.10% for the Netherlands. The Netherlands and Sweden will be granted an annual GNI-related reduction in the resource of €605 million and €150 million respectively. These trade-offs reached in the European Council are to be set down in a new Council decision on own resources. Other elements, particularly concerning the flexibility reserves, may be introduced when the interinstitutional agreement on budgetary discipline is renewed.

Reform of the European budget

The idea of rethinking the entire structure of revenue and expenditure was backed by the Luxembourg presidency. The Commission announced in October 2005 that it would publish in 2009 a White Paper on modernising budget expenditure and revenue. The European Council called on it 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”. The European Council may then base itself on that reappraisal to take decisions on all the issues dealt with in it. The reappraisal will likewise be taken into account during preparatory work on the next financial perspectives. Thus the UK presidency obtained a date for the start of the reflection period. Following through the reform of the CAP is one of the demands put forward by several countries in the context of the WTO talks. The European Trade Commissioner,
Peter Mandelson, announced in mid December that agricultural subsidies would end in 2013. Some Member States envisage that the CAP will quite simply be abolished. The UK Chancellor of the Exchequer, Gordon Brown, for instance published a document in early December stating that 10 to 15 years from now the CAP must include “no price guarantees, no support for exports and no producer or consumer subsidies”.

Renewal of the interinstitutional agreement on budgetary discipline

The financial perspectives constitute “soft law” since neither the EC Treaty nor the legislation in force makes any provision for them. They are made official by means of an interinstitutional agreement concluded between the European Parliament, the Council and the Commission, reflecting a consensus among the institutions (1). Once agreed, the ceilings established in the financial perspectives must be adhered to. The interinstitutional agreement currently in force allows for them to be modified in certain cases: revision, flexibility for the purposes of enlargement, establishment of a solidarity fund, etc. The European Parliament, dissatisfied with the December 2005 agreement, was preparing in early 2006 to embark on tough negotiations with the Council of the EU over this interinstitutional agreement.

2. The future of the cohesion policy

Despite some criticisms (Jouen, 2001), there is widespread support for maintaining the cohesion policy in a Union of 25 and more. The European Commission’s third report on economic and social cohesion, adopted in February 2004, took stock of the existing regional disparities measured in terms of per capita gross domestic product (GDP). In 2003 the level of GDP per inhabitant, measured at purchasing power parity, ranged from 41% of the EU average in Latvia to 215% in Luxembourg. Ireland was the second most prosperous country by this yardstick, with a GDP of 132% of the EU average. Per capita GDP in all the new Member States was less than 90% of the average, and did not even reach half of this level in Poland, Latvia, Lithuania and Estonia. The same applied to Romania and Bulgaria. The new Member States

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therefore have high expectations of the CAP and the structural funds. Of the old Member States, Spain is the main beneficiary of these funds in the Europe of Fifteen and is counting on continuing to receive structural aid in the future.

A reorganisation of the structural and cohesion policies around the objectives of the Lisbon strategy, as proposed in the Commission’s report, is what prompted the reform of the structural and cohesion funds, for which the first legislative texts were issued in July 2004. Regional aid currently accounts for 37% of Community expenditure. In its July 2004 Communication on the financial perspectives, the Commission recalled that “the current phase of enlargement will add 5% to the Union’s GDP – and to its revenues – but with 30% extra population. It follows that expenditure will increase more than revenue” (CEC, 2004d: 3). With respect to the CAP, enlargement adds another 4 million farmers, an increase of 50%, and doubles the earnings gap between richest and poorest.

2.1 The Cohesion Fund
The Cohesion Fund was established by the Maastricht Treaty with the aim of contributing financially to the realisation of environmental projects and the trans-European networks (transport infrastructure projects). It was originally intended for the four countries whose per capita GNP was below 90% of the Community average (subject to the creation of a stability programme in the context of economic and monetary union). The Fund consisted of €18 billion between 2000 and 2006, and was expected to cover between 80 and 85% of the cost of projects backed. The distribution key for the four countries concerned was set at 61-63.5% of the total for Spain, 16-18% for Greece and for Portugal, and 2-6% for Ireland. Since EU enlargement on 1 May 2004, the Cohesion Fund has covered the ten new Member States, as well as Spain, Portugal and Greece, for the end of the 2000-2006 period. Ireland ceased to be a beneficiary on 1 January 2004. Spain, for its part, will no longer meet the funding eligibility criteria as from 1 January 2007.

2.2 Reform of the cohesion policy
The legislative package on cohesion consists of a general regulation (CEC, 2004e) as well as individual regulations for each source of finance: the European Regional Development Fund (ERDF), the
European Social Fund (ESF) and the Cohesion Fund. There is also a proposal to create a cross-border authority to manage cooperation programmes (CEC, 2004f, 2004g, 2004h and 2004i).

The Commission proposes that activity should henceforth focus on a limited number of Community priorities reflecting the Lisbon agenda (growth, competitiveness and employment) and the Göteborg agenda (environment). On this basis, a short list of themes was drawn up for the operational programmes: innovation, the knowledge economy, environment, risk prevention, accessibility and services of general economic interest. The implementation principles remain as before: programming, partnership, co-financing and evaluation. All rural development measures are grouped together for all regions – including the least developed Member States and regions – in a single system of funding, programming, financial management and control, with the same degree of concentration as currently exists for the regions covered by the convergence programmes (European Agricultural Fund for Rural Development - EAFRD). A European Fisheries Fund will also be created. These two funds will not however form part of the structural funds. A new financial instrument for the environment would replace the existing environmental funding programmes.

2.3 The Globalisation Adjustment Fund

In addition, with a view to making spending more responsive to changing circumstances, the Commission proposes under its expenditure heading 1a (“sustainable growth”) the establishment of a Growth Adjustment Fund. The Brussels European Council of December 2005 gave the go-ahead for a Globalisation Adjustment Fund tasked with providing extra assistance to workers who lose their jobs due to major alterations in the structure of world trade. The maximum sum disbursed will be €500 million per year. However, no provision is made for this fund in the financial perspectives; it will be financed out of underspent amounts and/or out of funds freed up under other headings.

2.4 New objectives

Existing objectives 1, 2 and 3 disappear, making way for three new ones: “convergence”, “regional competitiveness and employment” and “territorial cooperation”. For the purposes of the financial perspectives,
the Commission proposed that the cohesion policy be entered in a single budget heading for the enlarged Union of 27. In financial terms it proposed a budget corresponding to 0.41% of EU GNI, or €336.3 billion, 78% of which would be allocated to convergence, 18% to regional competitiveness and employment and 4% to territorial cooperation. Some believed that these sums were minimum amounts below which it would be difficult to conceive of a policy which better integrates the cohesion dimension into the implementation of numerous Community policies.

At the close of the 2005 Brussels European Council, the cohesion policy accounted in total for 35.7% of the financial perspectives, or €307.619 billion. 51.4% of these funds will go to the new Member States and 48.6% to the old. Some “gifts” were deliberately handed out to old Member States. Thus Spain receives two billion, plus 50 million for the enclaves of Ceuta and Melilla in Morocco; Italy 1.4 billion; France 100 million (for Corsica and the Nord-Pas-de-Calais region); Germany 225 million for the eastern Länder and 75 million for Bavaria. The European Council also spelled out the funding allocation for the new cohesion policy objectives.

2.4.1 The “convergence” objective

The “convergence” objective aims to speed up the convergence of the less developed regions and Member States. Eligible regions are ones where the per capita GDP is less than 75% of the EU25 average (the current NUTS level II regions, according to the common classification of territorial units for statistics - NUTS).

Under the financial perspectives adopted by the European Council in December 2005, 81.7% of cohesion policy funds (€251.330 billion) will be allocated to the “convergence” objective, including 24.5% (€61.518 billion) for the Cohesion Fund and 5% (€12.521 billion) for the regions and Member States where aid is being phased out. (Phasing out applies to regions which would have been eligible under the “convergence” objective if the eligibility threshold had remained at 75% of average GDP for the Union of 15, but which are no longer eligible because their nominal per capita GDP will now exceed 75% of the new average for the Europe of 25.) The aid disbursed to these regions under the “convergence” objective will gradually disappear. Those regions
Currently eligible for cohesion funding which would have remained so if the eligibility threshold had stayed at 90% of average GDP for the Union of 15, but which are no longer eligible because their nominal per capita GDP will now exceed 90% of the new average for the Europe of 25, will receive transitional support until the aid has been fully phased out.

2.4.2 The “regional competitiveness and employment” objective

This objective, a composite of existing objectives 1 and 2, is intended to strengthen the competitiveness and attractiveness of regions as well as boosting employment. The entire territory of the Community will be eligible, with the exception of those regions eligible for structural fund finance under the “convergence” objective and regions benefiting from transitional arrangements.

With respect to the operational programmes financed by the European Social Fund, the Commission proposes four priorities in keeping with the European Employment Strategy: improving the adaptability of employees and firms; improving access to employment and increasing labour market participation; strengthening social inclusion and combating discrimination; and undertaking reforms in the fields of employment and inclusion.

Based on the financial perspectives adopted by the European Council in December 2005, 15.8% of these funds (€48.789 billion) will be allocated to the “regional competitiveness and employment” objective, of which 21.3% (€10.385 billion) will go to regions where aid is being phased in. (Phasing in applies to regions currently eligible under objective 1 which will cease to be so because natural growth has taken their per capita GDP to more than 75% of the EU15 average, corresponding to more than 82.19% of the EU25.) Aid to these regions will be introduced gradually under the “regional competitiveness and employment” objective.

2.4.3 The “European territorial cooperation” objective

This objective seeks to step up territorial cooperation at cross-border, transnational and interregional level, to establish cooperation networks and to promote exchanges of experience at the most appropriate territorial level. Regions eligible are ones at NUTS level III situated along internal land borders, as well as all NUTS level III regions situated along
external land borders and along maritime borders separated, as a general
rule, by a maximum of 150 kilometres, taking into account potential
adjustments needed to ensure the coherence and continuity of the
cooperation action. The list of eligible transnational regions will be drawn
up by the Commission in conjunction with Member States. The entire
territory of the Community will be eligible for funding in respect of
interregional cooperation, cooperation networks and exchanges of
experience. This new objective aims to increase cooperation at cross-
border, transnational and interregional level on the basis of the current
INTERREG initiative. It will be financed out of the European Regional
Development Fund. As the Commission puts it, the aim will be to
promote joint solutions to common problems between neighbouring
authorities, such as urban, rural and coastal development and
development of economic relations and networking of SMEs.
Cooperation will focus on research and development, the information
society, the environment, risk prevention and integrated water
management.

Under the financial perspectives adopted by the European Council in
December 2005, the “territorial cooperation” objective will be allocated
2.4% of these funds (€7.5 billion).

### 2.4.4 Amendments of the general regulation

Other amendments have also been made to the general regulation so as
to set the co-financing rate for the ERDF and the ESF at 85% for all
operational programmes in countries whose per capita GDP was less
than 85% of the EU25 average for the period 2001-2003. This rate will
be 80% in countries eligible for cohesion funding as from 1 January
2007 for regions falling under the “convergence” objective and for
regions where aid is being phased in under the “regional competeti-
veness and employment” objective.

Generally speaking, the Brussels European Council relaxed the deadlines
for disbursing resources coming from the structural funds. Appropriations
must now be used within three years, as opposed to two (the N + 2 rule is
replaced by N + 3 for the release of the funds) for Member States whose
average per capita GDP was less than 85% of the EU25 average during the
period 2001-2003, but only for the years 2007 to 2010. This applies to the
new Member States as well as to Greece and Portugal.
### Cohesion 2007-2013

The objectives and instruments proposed by the Commission

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<tr>
<th>Objectives Financial instruments</th>
<th>2007-2013 Objectives Financial instruments</th>
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<td>Convergence ERDF</td>
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<td>Objective 1</td>
<td>ERDF ESF</td>
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<td>Cohesion Fund</td>
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<td>Objective 2</td>
<td>ERDF ESF Regional competitiveness and employment</td>
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<td>regional level ERDF</td>
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<td>Objective 3</td>
<td>ESF - national level: European employment strategy</td>
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<td>Interreg</td>
<td>ERDF European territorial cooperation ERDF</td>
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<td>URBAN</td>
<td>ERDF</td>
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<td>EQUAL</td>
<td>ESF</td>
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<td>Leader+</td>
<td>EAGGF – Guarantee</td>
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<tr>
<td>Rural development and restructuring of the fisheries sector outside Objective 1</td>
<td>EAGGF – Guarantee</td>
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<td>(EAGGF – Guarantee)</td>
<td>FIGF</td>
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<td>9 objectives</td>
<td>6 instruments 3 objectives 3 instruments</td>
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Source: CEC (2004): 8
Finally, an economy cannot absorb public subsidies amounting to more than a limited proportion of its GDP in any given year. The critical absorption threshold for subsidies of this type is estimated at 4% of GDP. The programming arrangements for 2000-2006 already exclude annual transfers to any country of EU funds in excess of 4% of its GDP, and it has now been agreed that this rule will be carried over for the 2007-2013 programming period. The December 2005 European Council laid down the maximum level for these transfers according to the wealth of Member States.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Description</th>
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<tbody>
<tr>
<td>INTERREG</td>
<td>European Regional Development Fund (ERDF) Community initiative in favour of cooperation between European Union regions for the period 2000-2006.</td>
</tr>
<tr>
<td>EQUAL</td>
<td>A test-bed of ideas serving the European Employment Strategy and the social inclusion process. Its purpose is to promote a more inclusive working life by combating discrimination and exclusion based on sex, racial or ethnic origin, religion or faith, disability, age or sexual orientation. EQUAL is implemented by the Member States and financed by the European Social Fund.</td>
</tr>
<tr>
<td>LEADER +</td>
<td>Falls under the European rural development policy, the second pillar of the common agricultural policy (CAP).</td>
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### 2.4.5 Strategy

The Commission proposes a more strategic approach to programming, centring on the Community’s “strategic guidelines for cohesion policy” and the new “national strategic reference frameworks”. The strategic guidelines for cohesion policy are designed to transpose the Community’s priorities, taking into account the Broad Economic Policy Guidelines (BEPG) and the European Employment Strategy. They are the basis for the formulation of each Member State’s national strategic reference framework.

The national strategic reference framework will set out the Member State’s cohesion policy priorities for the period after 2006 and plan the resource utilisation. It will replace the existing Community support
frameworks (CSF) and the single programming documents (SPD), as well as the programme complements. The document will give a brief description of the Member State’s strategy and the main guidelines arising from it, and will constitute a political charter for the elaboration of operational programmes (national and regional). This national strategy will be followed up by a progress report, which must be submitted by the Member State annually by 1 October at the latest. The European Employment Strategy guidelines will likewise be evaluated every year at national level.

The ERDF and the ESF may finance, in a complementary manner and subject to a limit of 5% of each priority of an operational programme, measures falling within the scope of assistance from the other Fund, provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it. Programmes must be drawn up in close cooperation with economic, social and regional partners. The European Investment Bank (EIB) and the European Investment Fund (EIF) may participate in preparing the national strategic reference frameworks, the operational programmes, major projects and public-private partnerships (PPPs). If the Commission considers it appropriate, the Funds may also finance activities in respect of preparation and monitoring, administrative and technical support, evaluation, auditing and supervision.

For the first time in 2009 and at the beginning of each year, the Commission will report to the Council, which will adopt conclusions on the implementation of the strategic guidelines, to be monitored by the Commission. The draft Community guidelines on cohesion, growth and employment were adopted by the Commission on 5 July 2005.

This proposed reform of the cohesion policy has been welcomed on the whole by the Member States and the social partners. The ETUC had been very keen to see the EQUAL initiative preserved. As for the European Parliament, Notre Europe drew attention in a report produced for its Committee on Regional Development to the risk that the cohesion policy might spill over into the realm of the open method of coordination (European Parliament, 2005b).
Conclusions

The budgetary negotiations confirmed that enlargement would be financed in minimalist fashion. The agreement now exists but still has to be translated into a new interinstitutional agreement on budgetary discipline. The UK rebate and the enlarged Union’s cohesion policy were the main adjustment variables in the negotiations. Their conclusion gives the green light to the legislative process putting into practice these reforms and the other changes – especially relating to the EAFRD – introduced by the European Council of December 2005. After all, the adoption of the financial perspectives at the end of 2005 was not just about approving the minimum amount of resources necessary for this key EU solidarity mechanism, but also about planning it properly. Other adjustments will be required in the future. The European Council has already acknowledged that the funding allocation for the Union’s role in the world was inadequate. The sums proposed by the Commission to finance the Lisbon objectives on research and development were not granted. The funding of these policies is a matter of national responsibility and therefore depends above all else on the Member States themselves and the wishes of their political leaders. For instance, the German Chancellor, Angela Merkel, decided in early 2006 to increase significantly the resources allocated to these policies.

More fundamentally, the agreement of December 2005 opens the door to a thorough rethink of both the structure of the budget and its financing. How should the international trade talks impact on the structure of the budget? How should the funds freed up from the CAP after the abolition of agricultural subsidies be reallocated? How should the objectives of this policy be redefined whilst preserving all the elements which contribute to food safety, given that the CAP has been lambasted for benefiting rich landowners more than small farmers? What form will rural development policy take in future?

The debate ahead will be difficult, given the continuing existential crisis and growth pangs highlighted by the twofold rejection of the European Constitution, which proposed giving greater recognition to the regional level. Will the cohesion policy help to foster a sense of belonging and of sharing a common European destiny? Only on this condition will progress be made in the debate about introducing tax revenue as a
means of financing the EU. That would put an end to the pernicious logic of the “fair return” and put solidarity-based policies on a permanent footing, thereby helping to demonstrate that the European Union is more than just a free-trade area.

References


CEC (2004f), Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund,


