ENLARGEMENT, SPENDING POLICIES AND THE EU BUDGET

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Paper given at the European Union Studies Association Meeting, Nashville, 2003

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INTRODUCTION:

Anticipation over the future enlargement of the European Union is currently overshadowing most other issues of concern to Europeans. The addition of ten states in 2004, entering at lower levels of development than the current members, will surely impact European institutions and integration, especially since none of these new members will be net contributors. The Commission states that, "enlargement—will have an enormous impact on the continent's politics over the next few decades."[2] Some experts have called enlargement an opportunity and a challenge. Other researchers have suggested that enlargement will "reinforce existing incremental trends in EU policies, including--growing conflict over the budget,"[3] and increase conflict on reform of current EU spending policies such as the Common Agricultural Policy (the CAP) and future distribution of Regional and Structural Funds.

The EU Commission considers the Budget of the European Union to be an important manifestation of its underlying philosophical and political intentions[4] despite the fact that the links between its budgetary policies and the economic development of the Member States are weak.[5] Michaele Schreyer, the Eu's Budget Commissioner, recently stated that the EU's Budget is an appropriate instrument to meet the new expectations of a twenty-five-member Union.[6] Although the EU Budget is relatively small, slightly over 1% of the combined GNPs of the fifteen Member States, its political agenda is big, and the addition of new Member States can only add to its complexity. Disputes over the EU's spending policies seem likely to increase. Indeed, many observers attest that "accession of these countries is hardly feasible without either a very substantial increase in budgetary resources or an agreement to restrict the access of the new members to these resources."[7] Either of these policies would cause considerable controversy.

With or without enlargement, the Budget, and especially the Common Agricultural Policy needs reform. Each new enlargement brings renewed conflict over national contributions and the EU's own sources of revenue as well as disputes over the distributions of EU revenue and funds. Because budgets are established and approved by legislatures in democratic countries, they are considered as good indicators of government priorities and policy directions. The EU's Budget also highlights its goals when it designates funds for development or for other priorities. The newest EU enlargement will certainly cause some funding changes to its Budget, not only for extra administrative costs, but also for added expenses needed to encourage greater equity among its members, one of the EU's stated political goals. The EU has already spent money to help the applicant states develop their democracies and economies in order to meet the requirements of the 31 Chapters of the Community Acquis to join the Union. The EU Budget for 2003, the last one for the EU-15, calls for "combining budgetary discipline with meeting new priorities."[8]

This paper describes the politics of budget making and money spending in the European Union, and examines how the challenge of enlargement, as the Union adds more members, will affect these policies, not only economically but also politically. Is the EU's Budget more than just a plan for spending money, but also a political statement? Does the Budget reflect the EU's true intentions or is it too small to really matter as an indicator of policy direction?

Methodology

The methodology of this paper includes asking questions and analyzing the structure and functions of the EU's Budget and looking at on-going changes, both philosophical and actual. It also incorporates some historical analysis and comparison of the current budgetary process to earlier financial procedures and periods of enlargement. Because earlier enlargements proceeded slowly with only a few states entering at any one time, the EU institutions were often able to resist drastic changes. The current enlargement, adding ten new members all at once, is unprecedented, and observers expect its effects to change the EU more noticeably than earlier enlargements. Since the Union specifies that its budgetary policies help operationalize its dream for European integration, this paper will use the EU's Budget to study its changing political and economic goals.

Since the periods of enlargement are times of change, they are also opportune times to study the Budget and to assess how (and if) the EU's Budget adapts to these changes.

1. This paper examines the political aspects of the EU's Budget and enlargement process, using frequently asked questions as guidelines, in order to see the effects of the EU's enlargement on its Budget.
2. It looks at the costs (both political and economic) of enlargement.
3. It studies the procedures and philosophies involved in establishing the Budget.
4. Then, the paper examines the EU's Budget and its sources of revenue and expenditure commitments.
5. Further, it looks at the CAP, and its place in the overall Budget structure. We especially focus on budgetary changes to the CAP, because it is the largest single expense and one of the EU's first "common policies".
6. Finally, the paper presents more historical and political analysis along with some concluding remarks.

The analysis begins by asking a few crucial questions to raise the important issues.

Important Questions and Considerations

There are several important political questions concerning the budget. The intricacies of where the EU's money comes from, where it goes, and who controls it, often appear confusing to the lay person, and even to the ordinary EU citizen. The budget is not always as transparent as it should be, especially now that the United Kingdom's rebate is included in the calculations.[9] There are over 200,000 customs agents, for example, and fraud is a major and growing concern especially as the EU adds more members.

Questions about the Budget's role in determining and reaching the EU's political goals have been raised before and especially during periods of earlier enlargements. Does the enlargement process itself affect the Budget and if so, how, and in what specific ways? How should the Budget be structured and how large should it be in order to meet the challenge of the 2004 enlargement? The questions of who gets what and which EU policies should get funding as well as how equally monies are distributed, remain controversial political issues.[10] Deciding which countries will shoulder the costs for the EU's development and what are other appropriate means of finance are other important political considerations (See Charts A and B). Budget planners want to ensure "the orderly development of finances but remain flexible enough to deal with the unexpected."[11] Without reform to the compulsory payments before the next enlargement, or new ways to raise money and prevent fraud, it will be much harder to reach consensus on common goals and achieve effective integration in a European Union of twenty-five members.

As stated, the Budget of the European Union is quite small in comparison to budgets of most regular governments, and currently its compulsory payments to the Common Agricultural Policy and its Administration consume about half of these funds. The other half is spent on various structural and regional projects with clear political goals such as achieving more equity among the Member States and forming a closer union. A major concern is whether or not the money the EU spends to achieve its goals is actually effective? Furthermore, although the Commission stresses the political role of the Budget, it also states that the Budget can only indicate where money is spent, not the role it plays in achieving particular goals. Financial inputs may be important guides for studying goals, but the European Council and the Commission both caution against the, "usefulness of measuring benefits from EU membership in budgetary terms alone."[12] Budgetary balances alone can not indicate the major benefits gained by the Member States from EU policies such as economic and political integration.[13] This dilemma "is highlighted by the disparity between the cost of these policies and their impact in terms of growth and development."[14] The ten acceding countries are expecting a lot of benefits, leading to considerable growth for their economies and governments. Are these expectations realistic?

The Costs of Enlargement

We cannot talk about Enlargement without consideration of its costs, both political and financial. The Commission's "Agenda 2000,"[15] the third multi-year financial package which will last until 2006, called enlargement "a major event in the building of Europe" and a time of "new opportunities and great needs".[16] Although the ten Applicant States now meet most of the EU's requirements for accession into the Union, they still lag significantly behind the current Member States economically and politically, and reaching parity will be difficult and expensive. In the past, policy goals, the amount of resources, and the number of states have influenced the EU's spending policies. The current enlargement will be the most costly one so far because of the huge adjustment needed to successfully integrate ten new states into the EU and because adding these states will increase the population of the EU to around 440 million people. This sudden increase in population and in the number of Member States is unprecedented, and must be included in planning for future spending.

In order to avoid overwhelming the system, financial preparations for enlargement have been ongoing for a number of years. The Budget, adapting the EU's institutions and reforming the CAP, have been the major topics of the European Council's Berlin Summit in 1999, the Commission's Agenda 2000 Report and the Council of Ministers' frequent meetings. Several financial and legal instruments have already been in use for the Pre-Accession period. First, the Europe Agreements defined relations between the Union and the Candidate Countries in matters of trade and other political dialogues. Pre-Accession aid was doubled in 2000, and two new instruments providing support and financial aid were added to the original PHARE program, which began in 1989 and which targeted institution building and investment support. One new instrument, ISPA, which helped support infrastructure investments, had a budget of 1,040 million euro a year, and the other, SAPARD, a pre-accession agricultural instrument had a budget of 520 million euro a year.[17]

Agenda 2000 set the framework for many enlargement procedures, including the Budget and the distribution of goods and services among the Member States. The Berlin Council in 1999, allocated 21.84 billion euro, over a seven-year period to help countries get ready for accession and 58.07 billion euro for five more years to help meet the costs of Enlargement after countries become Members.[18] These costs amounted to around 16% of the annual budget, leaving 84% of monies to be used on the EU's various other projects,[19] and thus still leaving the Budget with some political clout beyond enlargement.

The addition of new members has raised costs before. In 1995, at the time of the last Enlargement to include Sweden, Finland and Austria, scholars noted the recurring struggle over the distributions of the gains of integration.[20] The battle has already begun for the present enlargement, as the Applicant States jockey for as many benefits as they can get while the current members try to keep the costs at reasonable levels. In 1999, the

Polish Government insisted on full agricultural benefits for Polish farmers according to the then current EU formula and even including direct compensatory payments, which the EU was trying to moderate in time for enlargement.[21] The applicant countries are willing to make some sacrifices because they expect that they will receive money and services from the EU Bureaucracy to offset their hardships and help propel them into the modern world. They expect the gains their countries will make, will be greater than the pains they are enduring to meet the Accession requirements and the Community Acquis.[22]

Strong vested interests in several countries make financial reforming difficult. Many of the current Member States advocate making important changes to the Budget and other EU Institutions before the ten Applicant States join, when decisions with more members will be harder to reach, but they are also reluctant to fund enlargement by cutting spending for current projects. Political priorities for the 2003 EU Budget include the goals of stability and security as well as sustainable development.[23] The 14% increase in the current financial package for DG Environment shows how the EU uses its Budget to directly support its policies. The European Policy Center and Notre Europe, think tanks on the European Union, stated in a recent seminar that "in the mid to long-term perspective, the reforms defining the future content of common policies will be the main determinant of financial flows. This especially concerns cohesion policy and the CAP, but also the objectives and commitments that the Union will adopt in internal and external policies."[24]

From analyzing the costs of enlargement, we see that this newest EU enlargement is already causing some changes to the Budget, and not only for added administrative costs. Also changes are occurring to develop more effective policies for integrating the new members into the Union and for reforming the EU institutions so that they are ready to accept the new states and implement the Acquis. These changes are needed if the EU's goals of an equitable and democratic union with closer cooperation among the members can ever become a political reality.

The European Parliament approved the 2003 Budget and the appropriations to prepare the EU institutions for enlargement. The 2003 EU Budget represents an increase of 0.26% over the 2002 Budget.[25] Five hundred new posts will go to the Commission and 236 posts to the Council to help apply the Community acquis in the new Member States.

While the EU has set aside money to fund the current Enlargement of ten countries by 2004, it is feared that if some institutional reforms are not made soon, this money will run out, and the newer members will get considerably less than they expect especially for their agricultural products. Also, without adequate funding arrangements for the future (after 2006), the enlargement process, as well as the further integration of the European Union, may be slowed. While this slowdown probably won't affect the current enlargement of the ten new members, those countries not ready now, but working hard to meet requirements, such as Bulgaria and Romania, may be adversely affected.

Setting the Union's Budget: Process and Philosophy

The EU's annual budgetary process follows strict and regular procedures but involves several of the Union's institutions in order to reflect both supranational and national political views. Even the European Council, not officially a part of the budgetary process, influences some key financial decisions in its agenda setting summits. The recent Copenhagen European Presidency Conclusions set out the financial consequences of enlargement in Annex I: Budgetary and Financial Issues. The European Commission produces an outline or preliminary draft (PDB) each spring for the following year. This draft is then debated in the Finance Council, amended, if necessary, and adopted by the whole Council of Ministers in July. It then proceeds to the European Parliament for a first reading where modifications to the compulsory expenditures, designated by the various Treaties and comprising around 50% of the annual expenses are proposed. There may be more readings in both the Council and the Parliament at a later time, depending on the amount of controversy.

In recent years, the Parliament's power to control the use and the benefits of the EU's money has gradually increased, so that it now has budgetary powers similar to many European parliamentary governments. Parliament may also amend the non-compulsory proposed expenditures, which include social policy, regional policy, industry, energy and transport, and it has the final say over adopting the annual Budget. The Council of Ministers, however, retains the last word on compulsory spending, but an increase to the maximum rate of spending must be acceptable to both the Council and the Parliament.[26] The President of the Parliament signs the final Budget before it can go into force.[27]

The recent increase in Parliament's influence over the Budget reflects the EU's attempts to fix some of its political problems and decrease the democratic deficit by giving elected European Members of Parliament (MEPs) more control over the EU's policy making. While this reform may sound like a good policy, as long as the Budget remains small and 50% or more of it is spent on compulsory items designated by the Treaties, the Parliament has not gained much real political power over the Union's spending or agenda.

The European Commission is responsible for implementing the provisions of the Budget, and it also handles the general management of the EU's finances under the authority of a Financial Controller. However, as the Commission notes, the Member States actually manage about 85% of the implementation of the Budget. The Court of Auditors and the Parliament have dual powers of supervision over the Commission's financial management, and the Commission also established a special unit to combat fraud, the UCLAF, which was responsible for all aspects of fraud prevention, a very large problem in the EU. This anti-fraud unit came under fierce criticism in the late 1990s because it was inefficient and ineffective, and it was replaced in 1999, by OLAF a new anti-fraud office more independent of the Commission. This fraud unit has recently grown, both in powers and size, and it works in partnership with the Member States, as they exercise their responsibility for implementing various parts of the Budget (under the supervision of the Commission). This intertwining of responsibilities for the management and implementation of the Budget is another indication of the constant tug-of-war between national and supranational interests so characteristic of EU politics. As new countries accede to the European Union, there is always a concern about how well their political institutions will be able to handle these co-management budgetary responsibilities.

The Court of Auditors, whose twelve members are appointed by the Member States, checks that the Commission's financial arrangements are sound and produces its own separate report in addition to the Commission's annual report. These procedures are subject to the final say of the Parliament, which has the power to dismiss the Commission if financial mismanagement is detected.[28]

Because the EU Budget must be balanced,[29] the questions of who gets what and how much each nation owes is an ongoing battle made more pressing at times of enlargement. From the Treaty of Rome to the present time, the EU has been forbidden to run a deficit and must function with considerable budgetary constraint. Thus, the EU is obliged to constantly find new sources of revenue to keep the budget balanced[30] and now to finance the cost of enlargement. The European Council's Berlin Summit in 1999 clearly reiterated the importance of spending ceilings for enlargement related expenditures so that the EU Budget would not get out of control during the process of adding new members. (Table 1 about here: on Contributions to Budget Revenues for 2002, from "the Community Budget: the Facts in Figures, 2002")

It is clear that because of the addition of new members, both the philosophy and the process of setting the EU's Budget are changing. In order to try and correct its democratic deficit, the EU has given the Parliament more control over the Budget, a change that also reflects the supranational development of the EU's policy making. On the other hand, enlargement will also make it harder for the Commission to implement the Budget without more management help and money from the individual Member States. As the EU becomes dependent on the states for managing the Budget and providing funds, the states can reassert their national preferences. The process of setting the Union's Budget has, thus, promoted the growth of both national and supranational facets of the EU.

Sources of Revenue for the Budget

Notwithstanding the small size of the European Budget, the European Union has four designated sources of revenue, of which three come from the Union itself.[31] The European Union raises much of its own money, but national governments still play significant roles, both in providing funds as well as in deciding where the money goes.

The first own resource of EU revenue comes from the common levy on industrial imports from outside the EU. "National customs agents hand the money directly over to the EU." [32] The second source is a common levy on agricultural products imported from outside the EU and also collected and paid directly by the national agents to the EU. Both these sources are similar to taxes national governments put on goods and services.[33] Money from a nationally assessed value-added tax (VAT), varying from country to country but similar to a sales tax, is shared by the national governments and the EU. The EU receives 1.4% of the base used for calculating the VAT in each country. The member states have no legal control over these three of the EU's own resources, giving the EU control over how they are spent, unlike other international organizations. The Commission declared in its 1994 Own Resources Decision that it would regularly inform the Member States how Community expenditure was allocated by sector and by Member State.[34]

There are also EU programs such as the European Development Fund (EDF), which receive funding through outside sources even though they are sanctioned EU programs. The fourth, and newest, source of EU revenue is based on a percentage of the combined GNP of the member states of up to 1.27%. This revenue has added to the EU's ability to fund projects such as enlargement and improving the environment. However, since this money comes from the Member States, it has increased their influence over EU spending policies and could lead to increased inter-governmental decision making on financial matters.

The enlargement of the Union to twenty-five Member States increases the importance of the EU's sources of revenue, both politically and economically. An over-reliance on national sources of income might negatively affect the political integration of the Union. The addition of ten new members in 2004 is expected to increase the EU's own resources despite the fact that these countries are poorer than the current members are. On the first day that the new candidate countries join the Union, they must fully contribute to the financing of the EU expenditure. This measure is in accordance with the Union's Own Resources Decision of 29 September 2002.[35]

Expenditure commitments: Realities and Goals

In addition to balancing the budget and increasing the sources of income for the European Union, the EU institutions must decide how to distribute its monies. In earlier Budget reforms (MacSharry, 1992), ceilings were established for some spending (for example on wheat), in an effort to get control over the Budget and reduce expenditures and the chances of running deficits, but some areas such as sugar, milk and cotton were left largely untouched. How the European Union's political leaders allocate, through the Budget, who gets what and how much, is a vital political consideration, and leads to cleavages and other divisions, rather than a closer union depending on how it is accomplished. Enlargement could easily make this process even harder as more members add more funding requests. One of the EU's stated political goals is to help the Member States reach parity with each other, but it must accomplish this goal without antagonizing or over-taxing other Member States. The newer Court of Auditors (CoA) coordinates the allocation of funds as well as the Commission's allocation of spending. In 1998, the Commission issued a report on *Financing the European Union,* an examination of the EU's budgetary process. This report examined the Budget in terms of how well it addressed the problems of adequacy, equity, financial autonomy, transparency, simplicity, and cost effectiveness.[36] The Report stated that the budgetary process was cumbersome and complex, and that many problems stemmed from differences between national and supranational goals.

The European Union has a number of demands on the budget. These are divided into compulsory demands (around 50%), those laid down in the Treaties, and non-compulsory, where the EU Parliament and other institutions have direction over how these funds are spent. The administrative costs of the EU and the operation of all the EU Institutions (the so-called Part A of the general Budget) are part of the compulsory but not very controversial expenditures. Currently the cost of the EU's administration accounts for only 5.2% (5176.8 million euro) of the budget in 2002 (98,634.7 million euro).[37] These costs have not risen much in the percentage of total EU expenditures. In 1998, the EU also spent around 5% of its Budget on administration.[38] The EU projects that these costs will remain at between 5% to 6% of the total Budget until 2006.[39] The EU's 2003 Budget, adopted by the European Parliament December 19, 2002, allocates 99,685 million euro in Commitment Appropriations, only a slight increase over 2002.[40] Language translations and translators are a big part of this administrative cost. These costs increase with each Enlargement, as more languages are needed to accommodate the new members. Currently, there are eleven different languages used in the European Union and each paper and speech must be translated into all eleven languages. The upcoming enlargement will add nine new languages and necessitate several new positions for translators, and, therefore, some higher costs. Recently, the EU's administrative costs have included:

1. Expenditure relating to persons working with the institution:
2. buildings, equipment and miscellaneous operating expenditure:
3. expenditure resulting from special functions carried out by the institution, inter-institutional cooperation, inter-institutional departments and activities;
4. data processing;
5. staff and administrative expenditure of European Community delegations;
6. Other expenditures.

The remaining budget or operating expenditure is around 94%, and is also called Part B of the general Budget of the European Union. It is used to cover the costs of The Common Agricultural Policy (46.3% in 1999),[41] the Common Fisheries Policy (CFP, about 1%), Enlargement, and the various Cohesion, Structural, Regional, Environmental and Industrial Policies which have developed over the years of the EU's growth.

Cohesion policy is designed to reduce the inequalities between the different Member States and regions of the EU, and it consists of some regional and social policies as well as part (rural development) of the Common Agricultural Policy (the CAP). These policies are funded from the EU's Structural Funds: the European Regional Development fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF); and the Financial Instrument for Fisheries Guidance (FIFG). Three different Director Generals of the European Commission administer these funds.

The third and most current of the Commission's Own Resources Report (2000) divided the Allocation of Operating Expenditure in 2000, not including Administrative expenditures, into four categories:

> Agriculture; 2) Structural Operations; 3) Internal Policies; 4) External Action, Reserves and Pre-Accession Aid.

After agricultural expenditures, structural operations are the next highest spending priority. It is through the dispensing of these funds that the EU can profile its goals. Once the applicant states accede into the Union, they will be entitled to structural aid as most of them have national incomes of less than 40% of the EU average and will need help to reach the goal of parity with the current members. Structural operations, accounting for around 40% of total EU spending and 94% of structural funding are designed to achieve more parity among the Member States. They include funds for the three major objectives designated by the members in various Treaties and other official EU documents[42] as well as other Community initiatives, innovative measures, technical assistance and the Cohesion Fund.

The largest part of the EU's structural operations are spent on Objective One, which helps regions whose development is lagging reach parity with the rest of the EU, a major goal. For the years 2000 to 2006, 135.95 billion euro has been allocated to satisfying Objective 1.[43] Objective 2 supports the economic and social conversion of urban and rural areas, etc. which face structural problems, and Objective 3 helps to modernize systems of training and promotes employment. For this same time period, 18 billion euros have been designated for the Cohesion Fund (around 6% of the Union's Budget). As a result of pressures to reform the EU's institutions before enlargement occurs, these Objectives have recently been reduced from six to three and their goals consolidated and strengthened to help ease the transition of the candidate countries into the Union.

Internal Policies incorporate training, youth culture, audio-visual media, information and other social operations (education, vocational training); energy, Euratom nuclear safeguards and environment; consumer protection, internal market, industry and Trans-European networks; and research and technological development. Despite the fact that these internal policies influence the high levels of economic integration that the EU has achieved, they represented only about 6.8% of the EU's total operating expenditure in 2000.[44] It is apparent; however, that these types of expenditures are increasing as the budgetary base of the EU expands and as the number of Member States increases. So far, "the GNP ceiling (1.27% of national GDP) has provided substantial latitude for decision makers to utilize expanded revenues to undertake new policy initiatives."[45]

Although a lot of politics and bargaining are involved in setting the budgetary agenda for these Internal and Structural Policies, money from these policies accounts for under 50% of the EU's annual Budget.[46] Furthermore, any links between expenditure of these funds and benefits received from them are not easy to determine. If the economies of the European nations continue their present decline, and if their GNPs drop lower in the next few years, national contributions as well as the EU's own resources will decrease. Revenue decreases would leave less money for integration of new members, adversely affecting the enlargement process. The EU is also concerned about the implementation of regional development and the ability of the Applicant States to play their role in the management of the structural funds. In order to ensure that enlargement does not cause the Union to go into debt, the Commission proposed a gradual "phasing-in" for increases in Structural Fund transfers.[47] The Commission does not want enlargement proceedings to overwhelm the Union, and the current Member States do not want to lose the money they are currently receiving from the Structural Funds. In 2001, the EU Budget continued to give substantial amounts of the Cohesion Funds to Greece

(3.5% of its GNP), Portugal (1.5% of its GNP), Spain (1.2% of its GNP), and Ireland (1.1% of its GNP) in support of its re-distributive policy objectives.[48]

The Common Agricultural Policy

The battle for who will get what after the next enlargement heightened in October 2002, when the European Council met. Under pressure from the French and Germans, this Council agreed to keep the CAP in its current form until at least 2006. This decision will affect the distribution of goods and services for several years.

By far, the EU's largest and most controversial expenditure is the CAP. Through some recent reforms, the money allocated to the CAP has been reduced from over 60% (in the 1970s) of the Budget to the 48% approved for Agricultural and Rural Development in the 2003 European Union Budget.[49] Although CAP spending, as a percentage of total Union spending, has been going down in recent years, it still consumes the largest part of the annual budget and its actual costs have increased. The objectives specified by the Treaty of Rome and, which have not changed in the recent Treaties, were:

1. Increase agricultural productivity
2. Ensure a fair standard of living for those employed in the agricultural community
3. Stabilize markets
4. Assure the availability of supplies

5. Ensure that supplies reached consumers at affordable prices

Politically, the CAP represented the EU's commitment to its farmers and to preserving farming as a valuable way of life, and early, became one of the truly common policies of the EU.

Although common prices differed for each product, there were some common elements to the CAP's pricing and support policies. The Commission and the Council with the European Agricultural Guidance and Guarantee Fund (EAGGF) established the key market support prices on an annual basis. These support prices included, "target," "threshold," and "intervention," prices, and were intended to exceed the "world prices" at that time. The EAGGF, with its Guarantee and Guidance sections, worked to establish these support prices and improve the structure of agriculture. The Guarantee section handled the support prices while the Guidance section sought to improve the structure of agriculture. By the 1960s, financial support for farmers escalated as the European Union's expenditures on farm supports, Guarantee spending, replaced national expenditures. The Guarantee spending of the EAGGF, thus, soon outran Guidance spending which was still shared between the Union and the national governments.[50]

Within a short time, the Union, through the CAP policies, reached its early political objectives. Agricultural supplies became readily available at reasonable prices. Many farmers benefited, but not always in the ways, which were originally designated. For example, contrary to what the Treaty of Rome intended, larger farmers benefited more than smaller ones, huge surpluses developed, the EU's policies were detrimental to other countries and were contrary to the spirit of free trade, and also, farmers and governments became dependent on the support prices they received. It became clear to many EU policy makers that reforms to the CAP were necessary. Political pressures built up for significant changes to the CAP. The goals for agricultural policies had also changed. As the EU achieved its early goals, new goals, to include environmental concerns and to respond to pressures coming from the international community, were needed. There have been many suggestions as to how to reform the agricultural sectors of Europe, but applying these ideas is often very hard in the face of angry farmers and powerful vested interests. Most of the reforms that have been tried have not gone far enough to solve the problems. (Table 2 about here: Key EU Agricultural Statistics for 2002).

In the late 1980s, there were several attempts at reform. Finally, the MacSharry Reforms of 1992[51] and pressure from the GATT (now the WTO) helped to redirect agricultural support from production quotas for agricultural products to a guaranteed output (direct payments), and somewhat reduced CAP spending. The expectation of the eastern enlargement and the knowledge that the addition of ten to twelve agricultural countries would be very expensive under the old CAP rules inspired some of the changes. The Commissioner and the EU also designated some new political goals for agricultural policies. Besides reducing the size of the agricultural budget, these objectives proposed:

1. To guarantee that the EU would remain a major agricultural producer and exporter

2. To maintain rural communities

3. To keep production more in line with demand

4. To assure a more equitable distribution of farm income

5. To protect the rural environment

6. To develop the potential of the countryside

Enlargement negotiations included CAP reform in chapter 7 (agriculture) of the proceedings. The CAP section of this chapter discussed the problem of direct payments versus production quotas for agricultural products.

France and Germany negotiated an Agreement in Denmark in October 2002, to keep the CAP relatively unchanged until 2006, and then to phase in support for the new members over a ten-year period. This long phase-in period would greatly reduce the amount of support the candidate countries could expect to receive, thus hurting their economies and their chances at effective integration into the EU. Before signing the December 2002 Accession Accords, the Applicant States tried to negotiate a better deal for their agricultural sectors so that they would receive more money and at the current support levels as soon as they entered in May 2004.

Agreement on some demands was reached at the Copenhagen European Council Summit in December 2002, which set a new time-table with better conditions on agriculture for the Applicant States and added some additional money to smooth enlargement procedures.[52] Direct aid will now be phased in more rapidly and the new members will receive 25% of the full EU rate in 2004, rising to 30% in 2005 and 35% in 2006.[53] This level can also be "topped off" by 30% up to 55% in 2004, 60% in 2005 and 65% in 2006. Their farmers will also now have full and immediate access to the EU's Agricultural Policy (the CAP) and market measures such as export refunds in order to help stabilize their farm incomes.[54] The EU created a new temporary heading X for a special lump-sum-cash-flow for the Applicant States.[55] Enlargement issues influenced the policy outcome of this compromise position to the short-term benefit of the eastern farmers. Long term changes and reforms are still needed.

Despite concern from many Member States, changes to the CAP have not been very extensive, and the compromises reached in December 2002 will be expensive and could actually make the CAP harder to reform once the new states get used to having their agriculture subsidized. EU spending on agriculture, although reduced, remains its largest expense. The compromise solution for the Applicant States does not solve the agriculture problem in the EU nor does it make the EU's farming more efficient as the British and the Dutch (among others) desire. This compromise is more political than practical. The applicants are appeased and the current members do not have to attempt the significant changes until 2006. The EU's goals for agriculture have changed somewhat from assuring an adequate supply of food to protecting the rural environment, but these new policy directions have yet to result in significantly lowered spending or more practical policies.

The Common Fisheries Policy (CFP) did not actually get into full operation until 1983 and operates differently from the CAP. It aimed to stabilize fish markets, protect supplies and fishing areas and improve economic benefits for people who fished or worked in the fishing industry, but without the large subsidies so typical of the CAP. Most legislation comes through the Fisheries Council using the process of Qualified Majority Voting (QMV), but because fishing lobbies are small; the European Parliament has very little influence on CFP decisions.[56] CFP spending is such a small part of the EU Budget that changes to it have very little affect on overall spending or spending policies.

Historical Analysis of Changes After Past Enlargements:

Changes to the budget have occurred very slowly over time. When we look at the time these changes occurred, we see that there does appear to be some correlation between changes to the budget and the enlargement Process.[57] Looking at Table 1, we see that in the two years following each enlargement, there were significant budgetary changes lending some credence to the idea that enlargements have influenced budgetary changes. However, we also see that there are other non-enlargement years with significant changes as well. Many of these changes have affected spending on agriculture. Robert Jones notes that enlargement exacerbates problems with the CAP.[58] When the British joined the Community in 1972, food prices in Britain immediately increased as British farmers and the public both paid to support the more inefficient farmers in France. After many years of negotiations, the British are finally receiving rebates to compensate for the extra money they have spent on food and farming since the 1970s.

Another noticeable effect of adding new members is an enlarged agricultural labor force.[59] The enlargements of the 1980s, Greece, Spain and Portugal, added over 3,000,000 workers, and the German reunification also added farmers and laborers. Farmers in Austria, Sweden and Finland, with their specialized (Alpine and Arctic) climates, faced receiving lower levels of support from the EU than they had received before accession from their own governments or from the European Free Trade Association (EFTA). In response to this problem, the EU added Objective 6 to its Internal Policies. Objective 6 was designed to protect farms and the farming way of life in the new Member States. This Objective has since merged into the new Objective 3, but originally, it was added to placate Finland at the time of its accession to the European Union and can, thus, be seen as a change linked to a previous Enlargement.

The most recent enlargement also seems to be inspiring new attempts at reform. Concern about the EU's ability to maintain its current levels of spending and still finance the costs of enlargement have led the current Agricultural Commissioner, Franz Fischler to propose more reforms for the CAP. These reforms revolve around three modifications: unlinking direct subsidies from production levels; reducing direct support for farmers and orienting to the demands of the market better by lowering the intervention price to support farmers.[60] Although these reforms are not yet accomplished, at least the urgency of enlargement issues has brought them to the forefront of recent discussions.

Conclusions

We have seen that the EU uses its Budget as a political document when it lists its political goals as projects to be funded.

1. By looking at the EU's Budget we can get some idea about its political direction, although it is often hard to find the direct connection between the goals listed in the Budget and the degree of integration or democratization found in the Member States. One of the EU's stated goals before it enlarges much further is to lessen its "democratic deficit". Giving the European Parliament more power to plan and approve the Budget is one attempt to increase democracy in the EU's policy making process and is also one way that enlargement issues have led to changes in the EU's budgetary process. The EU has also changed its goals over the years, and enlargement or the idea of "widening Europe" has influenced the dialogue on political and economic integration. Several conferences or Summits have also addressed the issues raised by the current enlargement,

including the need to reform the EU institutions and the CAP. The Berlin Summit of 1999 and the Agenda 2000 document stressed the need for ceilings to keep the EU's Budget under control and acknowledged the challenges posed by enlargement.

2. The costs of enlargement have also affected the Budget. The EU has already spent a lot of money on Pre-Accession preparations to help the ten candidate members get ready to join, and the 2003 Budget sets aside more money to finance the actual Accession of these ten candidates. Table 1 shows that during the actual year of enlargement and including the following year, there are usually significant changes in the EU's spending, again indicating some links between enlargement and changes in the EU's spending policies. However, we also see that there were other years where changes to spending also occurred, for example, after the MacSharry reforms in 1992.

3. Despite the pressures from previous and current enlargements and from international sources such as the WTO, the EU's Budget remains complex and cumbersome. The addition of the rebate procedures for the United Kingdom makes the Budget even more confusing for the ordinary EU citizen. From the first Budget to the newly adopted 2003 Budget, the European Union has listed many of its goals in its Budget as priorities for funding.

4. However, the links between the goals listed in the Budget and actual policy are often weak because the Union has a lot of spending obligations before it can fund the non-compulsory and more goal-oriented expenditures. Also, the interplay between the

national and supranational forces and the strength of strong and entrenched interest groups in the EU further limit the amount of movement and idealism that can be realized in an already small and constrained Budget. There is not much room for leeway to link the Budget's spending goals to policy implementation. As noted also, budgetary balances do not always give much indication about major benefits gained by the Member States from EU policies, such as economic and political integration, political stability and security.[61]

5. Spending on the CAP has long been a controversial budgetary policy. Enlargement has made the issue more pressing as the candidate countries are all agricultural producers. However even with enlargement fast approaching and after several conferences, the French have again succeeded (in October 2002) in delaying major changes until 2006.

In summary, we have seen that enlargement does seem to have had some influence on the EU's spending policies and Budget. However, much of this influence is indirect and not as extensive as many feel that it could be. The fast approaching enlargement of 2004 should force the EU to reform itself and simplify its institutions if it wants to continue meaningful integration. Furthermore, if the Union wants the Budget to be a political indicator of its activities and visions, it needs to make it more accountable and it needs to strengthen the direct links between funded projects and development in the Member States. The EU should continue to use its Budget to lead the way to more innovative, transparent and efficient planning. Times of enlargement can be opportunities to inspire some movement in the EU, and times which the Union and its members could also use to more intensely push for changes and improvements.

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[1] The author would like to thank Marie Mainil for her valuable research on this paper and on the tables.

[2] Agenda 2000, "The Impact of Enlargement", p. 1 (from the Europa website: accessed, Dec. 2002).

[3] Andrew Moravesik and Milada Anna Vachudova, "Bargaining Among Equals: Enlargement and the Future of European Integration," _EUSA Review_, Vol. 15, No. 4, fall 2002, p. 1.

[4] As stated in many EU Official Documents and Commission Reports. The Commission views the Budget as having political significance.

[5] The case of Ireland is a good example of the ambiguity of this issue. Ireland has received substantial Structural Funds from the EU, and its economy has greatly improved since it began to receive these monies. However, many other economic indicators were also favorable for Ireland at the time of its economic boom, and so there is no way to directly link the EU funds to Ireland's growth, although there certainly seems to be a connection.

[6] Michaele Schreyer, "Making the European Union a Success," Seminar "The New financial Framework – Challenging EU Road for the Future", Finnish Ministry of Finance, Helsinki, Feb. 27, 2003, p. 1.

[7] Robert Jones, *The Politics and Economics of the European Union*, 2nd Ed. Cheltenham UK: Edward Elger, 2001.

[8] EU Press Release: Commission PressRoom, December 19, 2002.

[9] The UK rebate amounted to, 7,343 million euro in 2001. "EU Budget Boosts Cohesion Countries," *EU Press Releases*, p. 2. (Europa, accessed Dec. 2002).

[10] Arguments about equality and fairness often revolve around national issues. M. Donald Hancock, *Politics in Europe*, New York: Chatham House, p. 514.

[11] Schreyer, p. 2.

[12] See The Presidency Conclusions of the Berlin European Council, ch 24-25, 1999, point 68, and the Commission Report, 2001, p. 7.

[13] "EU Budget Boosts Cohesion Countries," *EU Press Releases*, p. 1.

[14] Berlin Presidency conclusions, March 1999, Commission Report, 2001, p.7.

[15] Agenda 2000 was actually written by the Commission in 1998.

[16] Agenda 2000; "The Challenge of Enlargement", p. 1.

[17] "The Challenge of Enlargement," (Europa), accessed February 2003.

[18] The European Union: Still Enlarging, Office for Official Publications for the European Union, Luxembourg, pp. 20-21.

[19] Some revised cost estimates have concluded that Enlargement costs could be as high as 22% of the budget, but that they still won't push the costs over the maximum permitted rate of 1.27% of EU GNP.

[20] John Pinder, *European Community: The Building of a Union*, 2nd ed. (Oxford: Oxford University Press, 1995), p. 152. and McCormick, p. 206.

[21] Michael Baun, *A Wider Europe*, Lanham, Maryland: Rowman &Littlefield, 2000, p. 207.

[22] The "Acquis Communautaire" is the body of legislation and Treaties to which the Member States have agreed. In the negotiations for membership, it was divided into 31 chapters.

[23] "EU Budget 2003: Combining Budgetary Discipline with Meeting New Priorities," *EU Press Release,* Commission PressRoom, p. 1. (Europa, Press Releases: Rapid, accessed Dec. 2002).

[24] "Reform of EU Policies in the Perspective of Enlargement and Their Financial Implications," Seminar organized by the European Policy Center and Notre Europe, February 2003, p. 20.

[25] EU Institutions Press Releases, Commission PressRoom, p. 1 (Europa, accessed December 2002).

[26] Jones, p. 192.

[27] Information on the procedures of the Budget comes from the Office of Official Publications of the European Communities: Luxembourg.

[28] The Santer Commission was dismissed by the Parliament in 1999.

[29] See The Treaty of Rome, Article 268 (ext199), and John McCormick, <u>The European Union: Politics and Policies</u>, 2nd ed. (Boulder, CO: Westview Press, 1999), Ch. 11.

[30] McCormick, p. 206.

[31] Hancock, p. 514.

[32] McCormick, p. 206.

[33] McCormick, p. 206.

[34] See *Financing the European Union, Commission Report on the Operation of the Own Resources System,* found at: (http://europa.eu.int/comm/budget/agenda2000/reports_en.htm) accessed Dec. 2002.

[35] "Copenhagen European Council, "Presidency Conclusions," p. 7. (www. EU 2003.gr) Dec. 2002.

[36] Jones, p. 201.

[37] Administrative expenditure of all institutions for 2002, Europa web site (http://europa.eu.int/comm/budget/index_en.htm) accessed Dec. 2002; and the Court of Auditors Annual Reports.

[38] McCormick, p. 204 and the 1998 Budget Report.

[39] Based in the EU's estimates and Commission and Parliamentary reports.

[40] "EU Budget 2003: Combining Budgetary Discipline with Meeting New Priorities," European Commission Press Releases, p. 1. (Europa, web site, accessed December 2002).

[41] Hancock, et al .p 516.

[42] See The treaties of Maastricht, Amsterdam and Nice; Agenda 2000 and the Accession Agreement for Finland, Sweden and Austria, 1995.

[43] Regional Policy, The Three Priority Objectives," (http://europa.eu.int/comm/regional_policy/intro/regions5_en.htm), January 2003.

[44] The Commission's Own Resources Report, 2002.

[45] Hancock, et.al., p. 518.

[46] Under 40% with expenditures on enlargement and accession.

[47] "The Challenge of Enlargement," p. 5.

[48] "EU Budget Boosts Cohesion Countries," p. 1 (Europa Press Releases, accessed Dec. 2002).

[49] "EU budget 2003: Combining Budgetary Discipline With Meeting New Priorities, " p. 2.

[50] Jeffrey Harrop, *The Political Economy of Integration in the European Union*, 2003, pp. 94-96.

[51] Ray Mac Sharry was the Commissioner for Agriculture in 1992.

[52] See the "Presidency Conclusions," Copenhagen: Dec. 2002.

[53] "Enlargement and Agriculture" summit Adopts Fair and Tailor-Made Package which Benefits Farmers in Accession Countries," Press Releases-European Commission, p. 1 (Web site of the delegation of the European Commission in Poland).

[54] Ibid..

[55] "Presidency Conclusions, " December 2002, Copenhagen, p. 7.

[56] Jones, p. 229.

[57] See Table 1 for information on the Budget changes around the times of Enlargement.

[58] Jones, p. 224.

[59] Jones, p, 224.

[60] *Le Soir*, January 23, 2003 (Brussels).

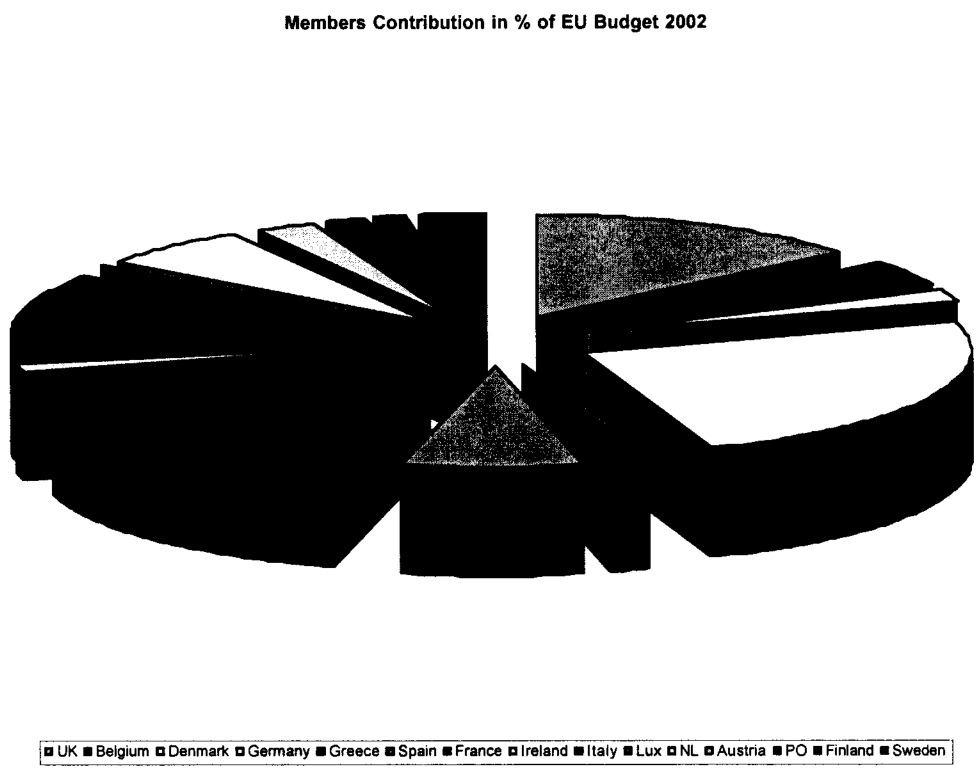
[61] "EU Budget Boosts "Cohesion" Countries, p. 1 (Europa)

TABLE 1

Year	EU Budget in EUR million (Enlargement Periods Underlined)	New Members
1971	2411.3	
1972	3304.8	
1973	4703.5	UK, IRL, DK
1974	5056.4	
1975	6101.4	
1976	7895.6	
1977	9076.1	
1978	12510.1	
1979	14773.5	
1980	16454.8	
1981	18529.4	Greece
1982	21300.8	
1983	25432.5	
1984	28039.6	
1985	28833.2	
1986	35820.2	Spain, PO
1987	36234.8	
1988	42495.2	
1989	42284.1	
1990	45608	
1991	55016.2	
1992	60844.1	
1993	66733.4	

SOURCE: Public finance figures of the EU (http://europa.eu.int/comm/budget) and European Commission: "General Budget of the European Union for the year 2002." (http://europa.eu.int/comm/budget/pay/budget/syntchig2002/en.pdf) December 2002

CHART A



Source: Same as Table 1

CHART B

EU Budget 2002: Members Contribution in Million of Euros

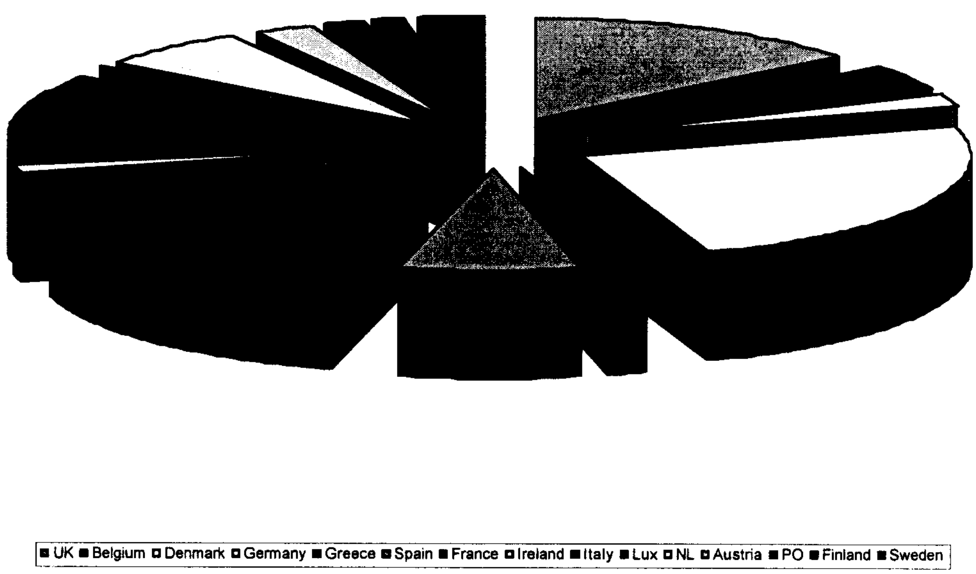


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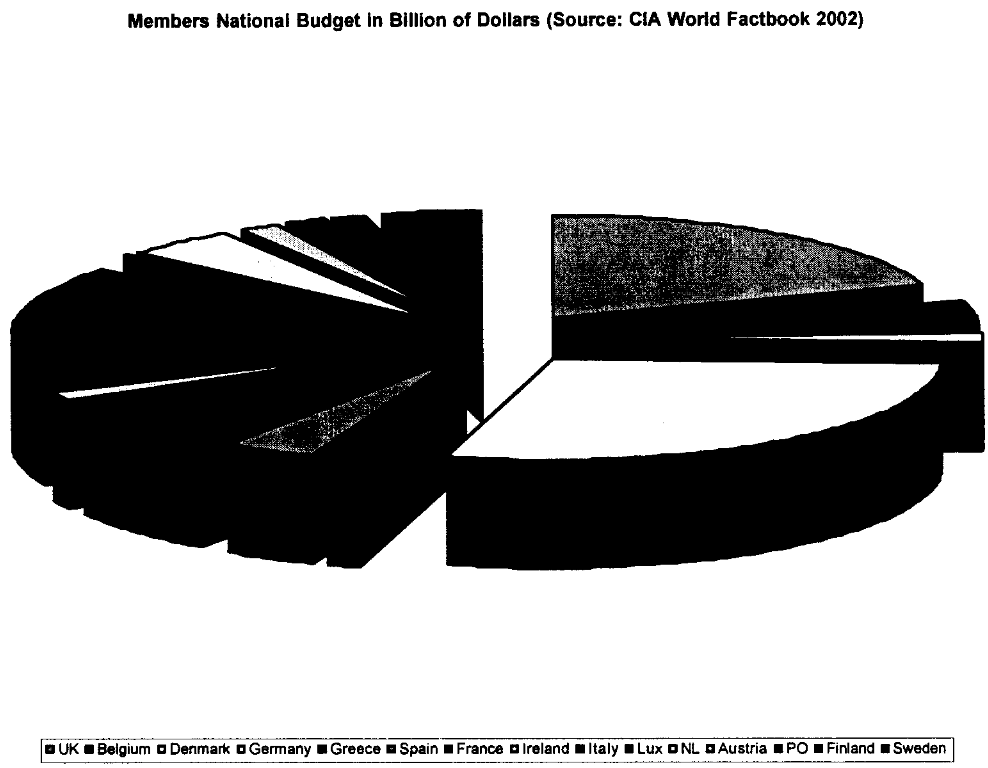
CHART C



Source: CIA World Fact Book, 2002

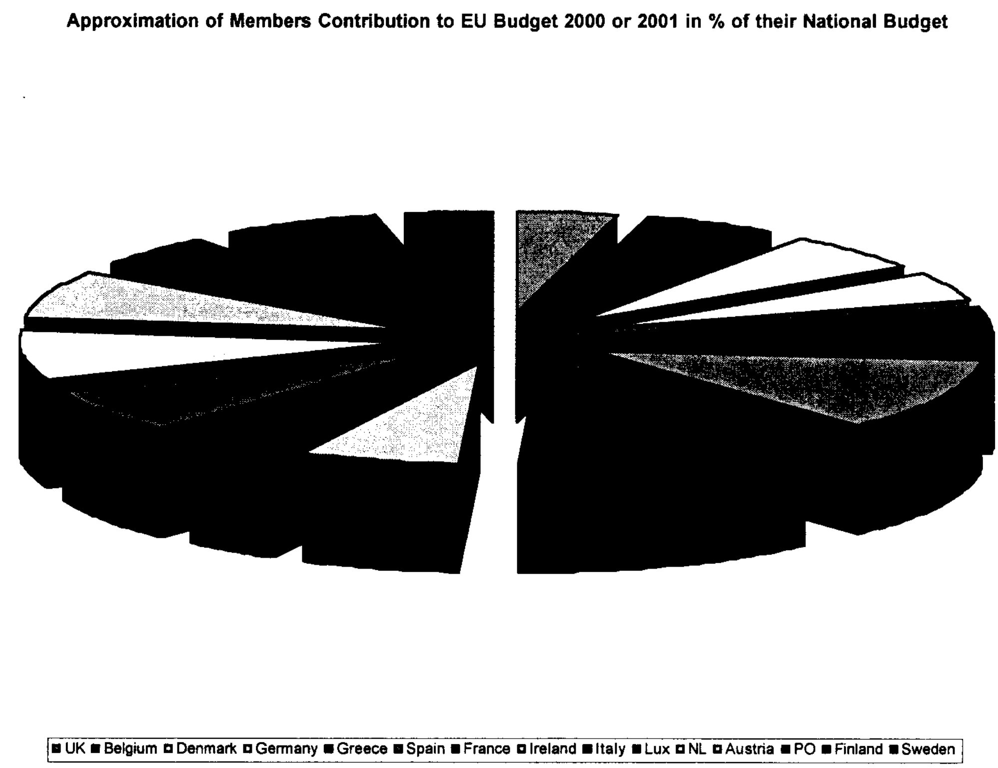


CHART D

Source: CIA World Factbook 2002, and Same as Table 1 (Europa website)

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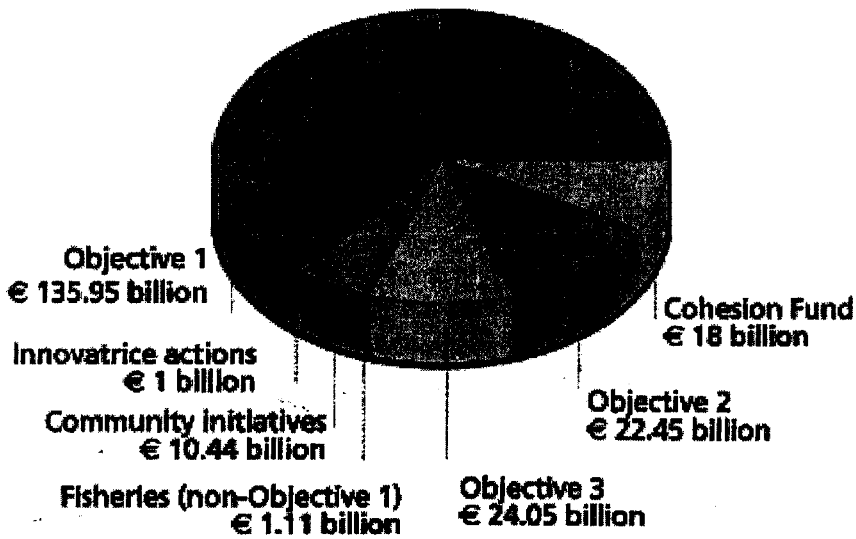

(at 1999 prices)

Last modified on 19th-Dec-2002

http://europa.eu.int/comm/regional_policy/intro/regions5_en.htm