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**Working Title: Explaining negotiations on financial perspectives 2007-2013: actors and institutions. How did New Member States do?**

Abstract

From a political science perspective, my paper, as a summary of the stand of my PhD project, focuses on the impact of the institutional design on the negotiation of the financial framework 2007-2013. Using a neo-institutional approach, I concentrate on the analysis of actor's behaviour during the negotiation process, with special emphasis on the behaviour of new member states, as new actors in this process. My hypotheses is: Although the general view is that it is the member states' national interests that define their behaviour in financial negotiations, I argue that we can also detect several institutional variables at the European level which determined actor's behaviour during the negotiation.

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## I Introduction

"The distinction between new and old member states no longer makes sense. For me, this enlargement feels like a real reunion of members of the same family who had been broken up against their will and who, after many years of separation, are getting together again to live and work side-by-side and put their divisions behind them. "<sup>1</sup>

Commission president, José Manuel Barroso

The negotiation of the new financial framework was, after the enlargement and negotiations of the Constitution, an important subject on the Union's agenda during 2005 and the final agreement will radically affect the future of European integration. The EU needed a success to spread the sense of crisis created by the NO vote in the French and Dutch referenda on the EU constitution, and the bitter disputes over the budget that characterised the EU summit in June 2005. The agreement on the financial perspectives 2007-2013, signed in the early hours of 17 December and the result of two days of intense bargaining, was seen as vital to avoid a deepening of the European Union's crisis. But why does the negotiation of the financial perspectives have so fundamental importance? To answer this we need to look beyond the numbers of the EU budget and focus on the benefits which it brings. The budget supports the transformation of countries, turning secondary roads into highways. It helps European researchers to develop cleaner and securer energy. It underpins integration within local communities and it enables the management of the countryside.

The negotiation on the financing of the EU was furthermore significant because it was the first time that a financial package was agreed in negotiation by an EU of 25 member states and it showed that the enlarged Union is capable to reach agreements.

But the budget dispute is not still over. Since the financial perspectives are embedded in an interinstitutional agreement, the European parliament still has to give its approval and could use its veto power to demand a more "ambitious" settlement and to increase its influence in the budgetary process.<sup>2</sup>

In my paper I will answer the questions, did institutions at the European level, seen as endogenous variables, shape the behaviour of new member states in recent negotiations

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<sup>1</sup> José Manuel Barroso, Statement to mark the first anniversary of enlargement, 01.05.2005.

<sup>2</sup> The European Parliament wants to increase funding for various programmes (life-long learning, Erasmus, Leonardo, foreign policy and consumer policy), greater budget flexibility, a well-defined role in the review process for the EU budget (both spending and income) and a pledge from Member States to certify EU funds have been properly managed.

on the financial perspectives 2007-2013 and in case of an affirmative answer which ones could be detected and how did they influence actor behaviour?

I will provide the answers in order to prove if new member behaviour was determined by different institutional variables from old member states. My hypotheses is: Although the general view is that it is the member states' national interests that define their behaviour in financial negotiations, I argue that we can also detect several institutional variables at the European level which determined actor's behaviour during the negotiation.

Although, new member states (NMS) are not seen as a unique bloc with the same characteristics and interests and one cannot represent all of them, I will concentrate my analysis on the behaviour of Poland and especially the alliances maintained by this country during the negotiation process. Poland is by far the largest of them, making Warsaw a vital ally for other states.

Financial negotiations are hard to understand and informed reporting is rare since the matters under discussion and the rules are complex and national governments can elude control relatively easily especially since the agreement on financial perspectives 2007-2013 is recent, so my paper is based on the analysis of primary resources like official publications and secondary resources like newspaper reports. During 2006, I will conduct several interviews in order to verify my research.

After an introductory delimitation of the theoretical framework I will concentrate on the variables which could explain actor's behaviour and in the third chapter I will focus on the empirical analysis of recent financial negotiation with especial attention on the behaviour of Poland.

## **II Theoretical framework**

The analysis of European integration was long time dominated by a dichotomous debate between neo-functionalism, which has seen the EU-institutions as the Commission in the driving seat of the integration process through the exploitation of their roles in daily Community decision making (Beach 2005), and realism/liberal intergovernmentalism, emphasizing the central role of governments which derives from their veto power. (Moravcsik, 1993; 1995)

This dichotomous debate received during the nineties various critics, concentrating on the question: Is the search for one theory explaining European integration wise at all? Pierson underlined that the investigation of particular policy areas through 'grand' European integration theories neglect the density and pluralism of actual policy-making within the EU. (Pierson, 1996: 125) This point, the insufficient explanation power, of wide ranging theories led scholars during the nineties develop other mid term theories, like multi-level governance (Jachtenfuchs; Kohler-Koch, 1996) and the policy networks approach (Héritier, 1994; Peterson, 1995b).

After the differentiation in the nineties we could observe a concentration in European integration theory around the institutionalist approach, as Aspinwall and Schneider bear out "... the most important sign of theoretical convergence is, of course, that almost any Europeanist with minimal level of self-respect flags herself as an institutionalist at the moment" (Aspinwall; Schneider, 2000: 2). The focus on institutions as a foundation concept in political science, has given rise to a variety of institutionalist approaches and there is a wide divergence between new institutionalists but they share as a common assumption the idea that the existence of an institutional framework provides a source for a complementary or alternative logic of behaviour for agents. In this sense the most significant neoinstitutionalist claim is that institutions not only "determine" policy, but they also model the strategies of actors involved and mediate in both conflict and cooperation relationships. (Closa, 1998) By doing so, institutions structure political situations and leave their mark on the actor behaviour. As a consequence and in delimitation to the liberal intergovernmentalism, which asserts that the development of national preferences is exogenous to the international environment, the institutionalism sees the institutional arrangements at the European level as endogenous variables which shape both the preferences formation and consequently the actor behaviour in negotiations. (Kassim; Dimitrakopoulos, 2004)

If we take into account the deep institutionalisation of the Union, it is not surprising that the neoinstitutionalism has become a prominent approach in the study of the European integration. (Pollack, 2004) However the impact of institutions differs according to the circumstances of the negotiation setting and the temporal dimension.

Scholars had used the concept of institutions twice as independent or dependent variable. In the first case authors tried to explain how institutions determined actors behaviour and in the second case the attention was focused on the question, why a specific institution was set up and how it developed. During last years numerous analysis applying this understanding of the impact of institutions were published, so new institutionalism has been used and applied to explain recent evolutions in the integration process, following the question whether participation in EU institutions can change the identities and preferences of member states, like the convention method (Beach 2003; Closa, 2004), but also to analyse long term developments of institutions.

Regarding the institutionalist approach, the institutional environment is the key determinant of actor behaviour and it can be broken down into six elements (see Dimitrakopoulos; Kassim, 2004), however, in this article only variables at the European level in concrete the institutional arrangements for negotiations on financial perspectives will be taken into account.

A comprehensive study of EU financial negotiations must also consider the rationalistic components of actors behaviour in negotiations, in addition to the analysis of the impact of the institutional context provided by formal and informal norms and practices. (Closa, 1998) On the one side state agents are instrumentally rational, motivated by a “logic of consequentiality” (March; Olsen, 1989: 949), which means that actors behaviour is driven by a logic of anticipated consequences and prior preferences and on the other side actors are goal orientated and choose the negotiation position they believe to be the most efficient one to reach their desired objectives, which they want to maximize following their domestic preferences.

In my analysis I will apply an institutionalist approach without choosing between the different institutionalism, understanding institutions as independent variables and I am claiming that the institutional arrangements surrounding the negotiation process created an environment which shaped actor behaviour directly, in this sense the actor behaviour would have been different within a different institutional arrangement.

### **III Character of Negotiations on Financial Perspectives 2007-2013**

Applied the neo institutionalism on the investigation objective, a definition for the financial negotiation could be: The negotiation on the financial perspective is an institution, or set of institutions, understanding institutions as rules, procedures, norms, and common understandings, that constitute its members, structure their interactions, and contain rules to mediate between power and interests to influence policy outcomes (Caporaso; Keeler, 1995: 49). These rules do determine actor behaviour or policy outcomes both precisely but also in a fuzzy way making some actions more likely than others. (March; Olsen, 2004)

As in the previous chapter it has been lined out, institutional arrangements at the European level are likely to affect both the preferences formation and in consequence the actor behaviour. Financial negotiations are held in a very specific institutional setting, where national governments are the principal actors and exercise veto power. The following paragraphs try to detect valid independent variables which could explain new member states negotiation behaviour.

- *The composition of the EU budget* - The European budget is characterised by a form of inertia linked to the sedimentation of common policies put into place since the 1950s (Lefebvre, 2005) and by structural changes in the revenue composition since the eighties. In this sense we have not only to analyse the number of issues but also their historical dimension. On the revenue side the EU budget is composed of four resources, the three ‘traditional’ - own resources like customs duties, agricultural duties / sugar levies and the VAT resource. The fourth resource is based on member state GNP which was introduced only to be called upon in case there was a shortfall in revenue from the first three resources. But as the budget has grown, this resource has gradually become the most relevant revenue, with the consequence that the EU budget has progressively depended on direct contributions by member states and with the increasing importance of the fourth resource the distributional conflicts among member states have also increased.

On the expenditures side the CAP, the Structural Funds and the Cohesion Fund, are the main spending categories. The development of these policies is not only result of rational economic decision making, but also result of “...outcome of past horse-trading and bargaining between member states, very often to pay compensation to countries for expected losses” (House of Lords, 2005: Q7). And

Gros underlined: “The current composition of spending is the result of historical accidents. [...] The main legacy of the ‘founding’ compromises on agriculture and structural funds is that the budget is basically seen as a vehicle for the redistribution of money between member states, rather than a tool for fostering common goals.” (Gros, Micossi, 2005) Budgetary deals were established after the scheme that net beneficiaries received parts of the redistributive payments as compensation for their assent of certain policies on the EU level (Carrubba, 1997) and to a certain extent, the wealthy member states were willing to pay for the consent of the net beneficiaries by means of subsidies. Nevertheless, since they finance the redistributive programmes alone, while the other member states profit from them, it is in the interest of the net-contributors to keep the expenses for subsidies at the lowest possible level. (Schneider, 2005)

Once such deals are done, they are hard to undo, “while it is easy to start new budget lines and grow expenditure in them, it is far more difficult to curtail expenditure once programmes are established and each policy area acquires its own support constituency based on functional and national interests” (Levy, 2004: 192). The accumulation of national constituencies (France - on the Common Agricultural Policy, Spain - on the structural/cohesion funds, Great Britain – on rebate) leads to the near grid lock in budgetary decision-making (Ardy, 2004: 135) and the interdependence among sub-fields has as consequence that attempts to achieve a move in one sub-field are predestined to fail if they were not coordinated with changes in other sub-fields. Furthermore the budget structure enhances not only the complexity and the opacity of the financial framework but also the maceration of objective criteria for EU financial assistance. The social cohesion measures, as the biggest heading in the EU budget, and the agriculture heading, the second biggest spending item in the EU budget, allocated together close to 90 per cent of the Commission spending proposals for 2007 to 2013. While the agriculture chapter was already closed by unanimity in 2003 only the structural policy heading was subject to negotiation. The new financial perspectives have as main objective to finance the enlargement, however and paradoxically, this fact was not subject of discussion but the conflicts which dominated the negotiations were the defence of the benefits of old member states, which were already conflictive topics during the negotiations of Agenda 2000. Without a doubt the Spanish and Italian positions,

and with less effect, those from Greece and Portugal, were determined by the reduction of their benefits. Enlargement did not provoke a distributive conflict but it emphasised already existent conflicts and it created a situation which opened new possibilities to change the established path and to debate again about the budget structure, without touching the benefits of the new member states.

Despite enlargement, which of course opened a new cleavage in current negotiation, and the negotiation on the Constitution, which offered possibilities for a paradigm change, no in-deep reforms were carried out, which indicates the resistance of the composition of the Budget to be reformed, as Begg underlined: "... the same issues will surface in six years time when the next circle starts". (Begg, 2005a) At the same time established rules, as the GNI based resource, suited NMS and new tendencies to give money to growth and jobs were seen with scepticism since infrastructure projects were the priority for NMS. In this sense enlargement did not change the Budget structure, also because NMS had a primary interest in maintaining it.

- *The determination of the negotiation procedure* - After three stable Financial Frameworks, the costs of change and the outcome of a possible reform are too high and too uncertain so that actors didn't consider an in-deep reform in the procedure despite the increase in participating actors. (see Laffan, 2000; Lindner, 2003) Once actors have made an institutional choice and adopted a set of rules, they are significantly constrain in their ability to leave the path and initiate institutional change and if the decision process is repeated with identical actors, the institution setting plays a more prominent role and is under stronger pressure than in other policy areas. (Lindner, 2003: 916) In this sense applying historical institutionalism we can suspect a high degree of path dependency in actors' behaviour, not only in its interests but also in its strategies. Although there is no formal rule setting up a detailed timetable for negotiations new member states and the Commission emphasised the importance of reaching an agreement as soon as possible, since the time for the preparation of the programming of the Structural Funds for the next period was calculated with 10 months. With the consequence that some actors could establish a negotiation strategy with a longer time horizon than others, at the same time the time horizon made other actors vulnerable to pressure. The application of article 26 of



the current IIA<sup>3</sup> could have led to significant financial losses for NMS since they were not included as full members in the Financial Framework 2000 – 2006, furthermore funds, which they were already counting on, still had to be formally decided upon.

- *Cleavages at the Council* – this is a further variable which could explain actor behaviour, in concrete the formation of alliances. “Coalitions simplify complex negotiations by reducing the range of alternative options and by identifying the strength and weakness of particular groups of supporters or opponents of a proposed settlement.” (Hayes-Renshaw; Wallace, 2004: 251) In long established negotiation forums, like in financial negotiations, coalitions become embedded within the negotiation cleavages. The most important cleavage which has been detected is the conflict between net-receivers and net-contributors to the EU budget. Although the left-right and the more versus less integration dimensions explain also actor behaviour, the distributive dimension shapes the conflict structure in the Council more decisively (Schneider, 2005). Through enlargement, the distributive preference heterogeneity within the EU increased, not only within the old member states and new member states but also within the new member states where the spectrum spans from Poland, with nearly one-third of the population employed in agriculture, to Malta, which is not affected by any of the existing subsidies schemes.
- *The absorption limit*<sup>4</sup> – this variable was especially important for new member states. An absorption limit is set on Structural and Cohesion Funds (including the relevant parts of the European Agricultural Fund for Rural Development and the European Fund for Fisheries) which should not exceed 4 per cent of a member state’s GDP. This fact limited automatically the payments new member states could expect since they have, in comparison to the old member states, a relative low GDP and consequently a low absorption limit, which is not optimum for the developmental needs of them and will slow down convergence. (Hudges, et.al., 2003) However, the usefulness of this limit was not discussed during negotiation.

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<sup>3</sup> "Should the two arms of the budgetary authority fail to agree on a new financial perspective, [...], the ceilings for the last year covered by the existing financial perspective will be adjusted ..." Article 26 of the Interinstitutional Agreement of 6 May 1999.

<sup>4</sup> "46. Total annual receipts in any Member State from structural operations (i.e. including the Cohesion Fund) should not exceed 4% of national GDP", Presidency Conclusions, Berlin European Council, 24–25 March 1999.

- *Decision rules* - Decision rules are a further variable which influenced the behaviour of actors during the negotiation process.

Regarding the fact that decisions on the Financial Framework are felt by unanimity voting all actors are formally equal in the weight of their vote, but their perceived economic and political strength influence their real voting weight. (Beach, 2003) While formal institutional rules do not decisively shape the relative power position of actors, they could influence them and have a substantial effect on their ability to threaten specific kinds of action. (Farrell; Héri-tier, 2005: 278) In the EU formal voting rules are relevant, but also informal rules, such as the consensus culture that characterises EU decision making (Elgström; Jönsson, 2000), have decisive importance. Furthermore the existence of formal rules provokes the emergence of informal institutions to avoid deadlock situations. The possibility of deciding by majority vote has changed negotiation strategies and coalitions become necessary and almost inevitable (Wallace, 1990: 222-23) but also unanimity voting provokes a tendency to coalition building. Whereas classic coalition theory predicts coalitions that are as small as possible in majority voting decisions, as states try to build a blocking majority, we could assume in unanimity voting decisions the tendency to build alliances as big as possible in order to isolate opposing interests. The outcome depended on the way in which each country managed to defend its interests, to engage in compromise and to build alliances. In council negotiations member states coalitions are hard to identify because they are part of the informal decision-making process and there is no formal agreement between any given states. They are process coalitions rather than voting coalitions in the sense that they are formed during the negotiations until consensus is reached. Process coalitions are formed during negotiations with the purpose of demonstrating combined strength, to put emphasis behind persuasion efforts or to boost morale arguments among a group of advocates (Dupont, 1994: 153-55, in Elström, 2002). As mentioned above, scholars detected various cleavage lines within the Council, former budget negotiations did show that net contributors united to diminish their share of the funding, whereas the recipients of regional funds coalesced to defend their interests – the process coalitions served to clarify standpoints and the existing balance of power, in this sense coalition building is a more usual phenomenon in situations where interests are clearly opposed

(Elgström, et.al., 2001). If conflicts become more frequent in an enlarged Union, we could clearly expect to see much more tendency to coalition behaviour. Unanimity voting agreements provoked in the past package deals and issue linkages, which could also be seen as ways out of a grid lock in the negotiation process. Nevertheless, in recent negotiations there were no great European projects that coalitions could veto or bargain for, in order to persuade or to ally net payers to raise their contributions. Nevertheless, though financial negotiations are seen as one compact negotiation, it is a negotiation about different headings and the different issues are linked to each other in “nested games”. (Tsebelis, 1990) Negotiation on the financial perspectives differs from other negotiation experiences of NMS within or with the EU. Accession negotiations could hardly be defined as negotiations. The candidate countries had to meet specified obligations before joining the EU which included political obligations, economic obligations and institutional obligations. During the nineties and at the beginning of the twentieth century the accession countries protested against the different treatment to them in comparison to former enlargement rounds. However, they did not have negotiation power, to materialise their demands in threats. The European Commission discussed with the candidates their capacity to fulfil the obligations especially their capacity to adopt and implement the EU *acquis communautaire*. The negotiations took place under the principle of the integrity of the *acquis* and the only possible outcome of the negotiations was the full application of it by the NMS, which means in other words, a bargaining asymmetry between the EU and the candidates, which had no credible capacity to threaten so as to obtain a better agreement. In this sense recent financial negotiations were the first negotiation in which NMS could threaten to veto the final decision.

- *Net balances* - Negotiations on financial perspectives were carried on within working groups or bilateral conversations, the matters under discussion and the rules and terms were complex, nevertheless winners and losers could be easily detected taken into account the simplifying concentration on net balances. Since negotiation focused, from the beginning, on the net balances, we can assume that member states were acting well informed about motivations of other states and about the consequences of proposals in net balances of each member state, since mathematic models could easily detect them. The concentration on net balances

let actors behave with a bazaar mentality, negotiating about relatively small amounts of money and losing the vision for the added value of the EU budget and in this last negotiation, the financing of enlargement.

#### **IV Empirical Findings – member states in financial negotiation - Poland**

Already in spring 2003, we had two important events, which influenced the development of budget negotiation. In March Jacques Chirac, alienated the 10 candidate states when he told them that they had lost an opportunity to shut up by supporting the war in Iraq. Also Germany threatened with financial repercussions for Spain and Poland after the collapse of the Council in December in Brussels. Poland and Spain fought on this time together to uphold the greater power given to them in voting principles contained in the Nice Treaty against the reduced power conferred in the draft constitution. Threats that provoked an angry Polish Foreign Affairs Minister Włodzimierz Cimoszewicz to say that the EU could not function based on "carrots and sticks"<sup>5</sup>. The threat to punish member states with financial consequences raised scepticism in many of the countries entering the Union to the German-French axis and strengthened the alliance between GB and the new member states and in especial the alliance between Poland and Spain. When on 10 of February 2004 the Prodi-Commission published its proposals on the Financial Perspectives 2007 - 2013,<sup>6</sup> Poland agreed with Spain to support the proposals. Also within the Visegrad group Poland backed these proposals. Even though the alliance between Poland and Spain was attacked by German Finance Minister, Hans Eichel, who voiced an idea to increase funds granted to the new EU countries, including Poland, at the cost of the old beneficiaries, Poland maintained the liaison with Spain.<sup>7</sup> Nevertheless after 1 May 2004, Warsaw got closer to London, as both countries shared the pro-Atlantic views, were present in Iraq and supported the Anglo-Saxon liberal model. It was also GB that, as one of the unique country, opened its labour market to Polish workers, nevertheless new member states had already a very strong resentment about the British abatement and they were concerned and dismayed when they realized that even before they joined the Union in May 2004 they had to pay for the British abatement. (Begg 2005b)

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<sup>5</sup> EU's richest six urge budget cap, BBC news, 16.12.2003.

<sup>6</sup> COM(2004) 101 final, Building our common Future - Policy challenges and Budgetary means of the Enlarged Union 2007-2013.

<sup>7</sup> German Government Offers More Money For Poland, Polish News Bulletin, 12.02.2004.

For the first time in November 2004 Poland considered to shift sides in the negotiations leaving the coalition with old beneficiaries and to join forces with the net contributors considering that the amount of money which it could gain in the negotiation was because of the absorption limit restricted.<sup>8</sup> In the for field of the December Council 2004 the Polish position met with understanding and support from other new member states, including the Czech Republic, Hungary and Slovakia.<sup>9</sup> The fracture with Spain deepened when Spain insisted on eliminating from the text of the Council declaration a provision which gave priority to helping new member states to reach the EU average in terms of economic development, which was immediately interpreted by NMS as an attempt to reduce structural funds granted to them.

Finally in January 2005 the Polish government was more convinced about the possibility of changing its strategy and joining the “gang of the six” in exchange for a guarantee that subsidies for the EU's new member states will be left untouched. "We will have no difficulty leaving the Spaniards alone with their problems, if we find out that their financial needs are to be satisfied at our cost."<sup>10</sup> The split between Poland and Spain over the budget was a gift to the net contributors, which wanted to drive a wedge between old and new net recipients.

In March 2005, Poland showed first apprehension that the financial perspectives could not be reached by 2005 and agreed to a reduction of the next EU budget for 2007-2013 if the final agreement on this issue was obtained by June.<sup>11</sup> However, Poland did not accept cuts in EU structural aid as proposed under the compromise prepared by Luxembourg.<sup>12</sup> Luxembourg had proposed to leave the limit of 4 per cent of national GDP only for states whose gross national domestic product was lower than 40 per cent of the EU average, only two countries would have had qualified for this group: Bulgaria and Romania. Poland would have been entitled to receive aid in the amount of 3.8 per cent of GNP. "This proposal is unacceptable. We don't see any reason why the threshold of 4 per cent of GNP [...] stipulated in the Accession Treaty should be reduced," said Jaroslaw Pietras, Minister for European Affairs.<sup>13</sup> According to Polish estimates, the

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<sup>8</sup> Poland may switch sides in EU budget battle, Reuters News, 15:58, 08.11.2004,

<sup>9</sup> Poland Forms Alliance to Fight for Better EU Budget, Polish News Bulletin, 09.12.2004.

<sup>10</sup> *ibid.*

<sup>11</sup> Poland Ready For Compromise On EU Budget, Polish News Bulletin, 14.03.2005.

<sup>12</sup> European Council, *Negotiating box on the Financial Perspectives*, Doc. N° 9065/05, CADREFIN 108.

<sup>13</sup> Poland Says No to Luxemburg's Proposals Regarding EU Budget, Polish News Bulletin, 25.04.2005.

decrease of the absorption limit from 4.0 to 3.8 per cent of Poland's GDP would have meant the loss of 2.8 bn euro within the seven-year budget plan.<sup>14</sup>

In the forefield of the June Council, Poland took part in the 'friends of cohesion' meeting in Portugal, whose final agreement called for an end to the British rebate. Also the Weimar Triangle, in which France and Germany tried to recover their ally Poland since 2004, and the Visegrad Group adopted a common position against the rebate and demanded the reconsideration of the British rebate, latter agreed also a common position to focus on increasing the share of regional aid.

During negotiation, Poland became progressively entangled in the Anglo-French battle over reform of the 2007-2013 budget. While France used the disappointment of the NMS about the position obtained by Blair and demanded that, since Britain strongly supported EU enlargement to spread democracy, it was unacceptable that Britain did not pay its share of the costs.<sup>15</sup> The British government planned to regain the moral high ground by cancelling the contributions that the Eastern European countries made to its rebate in order to improve their net balances. These moral arguments provoked certain optimism in the fore field of the June Council, however, Poland was keen to stand aside the British-French discussion at the summit and concentrated on receiving the maximum of EU money as the absorption limit allowed. Although the Luxembourg presidency budget proposal, launched on the 15 June,<sup>16</sup> was lowering the cap on Structural and Cohesion Fund transfers to regions to 3.9 per cent of GDP from 4 per cent, Polish foreign minister said: "I have the impression that if it depended on Poland we would find a resolution, [...] The Luxembourg position may be acceptable to all [and the] change we see as our sacrifice for a compromise."<sup>17</sup>

However, no agreement was reached due to the strong British opposition to the reform of its rebate, even though Poland, the Czech Republic and other new member states proposed a last reshuffle of funds that would have seen a portion of their development aid shifted over to Britain and the Netherlands to secure an EU budget agreement.

At the end of June, Blair was seriously concerned since the collapse of the deal had disappointed the east European states his desperately needed allies in the ongoing British presidency. To regain the partnership, GB launched an offensive in the last week

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<sup>14</sup> Polish Press Agency (PAP), 13.06.2005.

<sup>15</sup> Poor countries wooed by offer on contributions;EU, The Times, 15.06.2005.

<sup>16</sup> European Council, *Negotiating box on the Financial Perspectives*, Doc. N° 10090/05, CADREFIN 130.

<sup>17</sup> Warsaw aims to steer clear of Anglo-French rift, Financial Times, 16.06.2005.

of June to counterbalance relations with Poland and other new member states. John Prescott, deputy prime minister, and Douglas Alexander, minister for Europe, made separate trips to Poland, Lithuania and other east European states to explain why Britain vetoed a budget deal.<sup>18</sup> However, the same week, the French European affairs minister, Catherine Colonna, visited Hungary and participated together with her German counterpart at the "Weimar Triangle" summit in Poland.

The attention paid to the new member states, especially to Poland, was seen by the Polish political elite as an opportunity to assume a leading role in the EU. "We have a rare chance of playing a creative role as one of the driving forces for integration at a time when Europe is dominated by apathy."<sup>19</sup> Nevertheless, Poland maintained its strategy to steer a course between Britain and the continental powers and concentrated its efforts to increase the amounts, which could be received in structural aid.

On 1 of July, GB assumed the presidency with an optimistic working programme and from Estonia and Poland to Hungary member states cautiously embraced Blair's vision of a modern bloc financed by a modern budget designed to meet new challenges, according to Polish Foreign Minister Adam Rotfeld: "I really like this [Blair] vision because Europe today needs to take a fresh look at itself and to adapt better to the challenges of the contemporary world."<sup>20</sup> However, Poland warned the British EU presidency not to try to link an agreement on the EU budget for 2007-2013 to budgetary reform. Hungary, which assumed the presidency of the Visegrad group at the same time, withdrew that further EU budget talks could not use the offer made by new members at the June Council to forego some of their funding as starting point. But also disputes between the Visegrad group, where on the one hand Poland and Hungary made clear that maintaining farming subsidies was crucial for them and on the other hand Slovakia supported a reform in order to raise funds for research and development, were latent. However, the group understood the possibility to demonstrate leadership and submitted several proposals so as to bring forward the negotiations and to give preference to an early agreement before financial reforms.<sup>21</sup> In this sense NMS reacted furiously when the UK confirmed that the EU summit in autumn, aimed at reaching an agreement on the next EU budget, would be cancelled. As a reaction to it, the Visegrad

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<sup>18</sup> Charm offensive aims to woo east European states on budget, Financial Times, 24.06.2005.

<sup>19</sup> London, Paris and Berlin come to seek Polish support in EU budget debate, Financial Times, 28.06.2005.

<sup>20</sup> Across Europe, Blair's vision of a changed EU gains support, International Herald Tribune, 24.06.2005.

<sup>21</sup> Poles, Czechs seek quick EU budget compromise, Reuters News, 21.07.2005.

group undertook efforts to increase its pressing power, through the incorporation of communitarian institution or other member states. The Visegrad group, defended its common position also at Council meetings like on the informal European Council meeting in Hampton Court on October 27, where Hungary's Prime Minister Ferenc Gyurcsány represented the common view that it was unacceptable that the EU budget should be shrinking when EU membership and EU priorities were increasing.<sup>22</sup>

After the legislative elections in Poland on 25 September, the new government reaffirmed the priority of the outgoing administration and although Kazimierz Marcinkiewicz, the new prime minister, made his first foreign trip after elections to London, the Polish opposition to the presidency proposals were growing, in this sense the Polish Prime Minister said the visit was "not an anchor for all eternity. It was a logical visit but it is not the case that we will stick only with the British position. [...] As a principle we should not tie ourselves to a single partner, even if the partner in this case controls the presidency of the European Union".<sup>23</sup> The proposal of the Presidency to cut structural aid of almost 10 per cent in funding for eastern Europe, which was published on 5 December, was immediately subject of enormous critics not only from new member states. Finally the "famous" mail sent by the British ambassador in Poland, Crawford, in which he defamed Poland for blocking Blair's attempts to secure an EU budget deal, deepened the critical situation of the Polish British alliance.<sup>24</sup> Although Blair started a shuttle diplomacy in the first December week to the new member states to try to come up with a deal on the financial perspectives at the EU summit on 15-16 December has seen him facing tough criticism. The word "unacceptable" has been ringing out at the beginning of December from the Baltics to Warsaw to Budapest after the UK launched the idea of cutting back the structural fund payments. At the beginning of December the UK softened its previous stand on its budget rebate and excluded the new member states from shouldering their part of the UK rebate. Thus, the UK hoped to avoid losing its allies in the new member states, and avoid the accusation that it did not want to pay for the enlargement, stating that "the people who benefit most from that [British] deal are the accession countries, both in terms of the certainty and the ability to get their money."<sup>25</sup>

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<sup>22</sup> Blair to seek east Europe's support on EU budget, Reuters News, 18.11.2005.

<sup>23</sup> Friction with UK causes Warsaw to seek allies elsewhere, Financial Times, 13.12.2005.

<sup>24</sup> British ambassador blasts France, Poland in 'joke' email, Agence France Presse, 10.12.2005.

<sup>25</sup> UK seeks cuts to future EU budget, BBC News, 28.11.2005.



As a consequence of the continuing critics by the new member states, the Presidency on 14 December restored also some cut aid to Poland, Hungary, the Czech Republic, Estonia and Latvia, and offered extra money to Slovakia and Lithuania for the decommission of their nuclear plants.<sup>26</sup> The British Presidency suggested also additional “sweeteners” for Poland like 1 bn EUR to take account of the zloty exchange rate over 2007-2013 and 206 mil EUR for the five Polish regions where GDP per inhabitant is the lowest in the EU25<sup>27</sup>. However, the margin between the British offer and the possible amount of money within the 4 per cent of national GDP limit was still too huge and Polish Prime Minister Kazimierz Marcinkiewicz said: "This proposal, if it remains unchanged, will be vetoed by Poland."<sup>28</sup>

Nevertheless and even though Poland's prime minister and President appealed to the NMS to stick together and fight for changes to the draft, the coalition between NMS began to erode and after the Conclave between the foreign ministers of Hungary, the Czech Republic, Slovakia and Estonia, they changed their initial view of UK plans from "unacceptable" to "we are ready to negotiate"<sup>29</sup>. The Central and Eastern European countries were in a dilemma on the eve of the European Council on 15/16 December, since they announced back in June that they were prepared, to a certain extent, to give up some part of the funding to which they were entitled, in return of an agreement. Furthermore, the most important thing for them was an agreement, which would have allowed them to receive the support marked for the start of 2007.

A few hours before the start of the European Council, France and Poland joined forces to reject the latest British proposal. The foreign ministers of France and Poland wrote on 14 December in the FT that the British proposal makes "victims" of poor member states and that it "cannot become the basis of an agreement"<sup>30</sup>, while France wanted the UK to cutback its rebate even further, Poland wanted spending levels to be revised back to the levels proposed by Luxembourg in June.

On 16 December Poland put forward an own proposal close to 1.05 per cent of GNI in accordance with Berlin, Paris, the Visegrad Group and the Baltic states.<sup>31</sup>

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<sup>26</sup> European Council, *Financial Perspective 2007-2013*, Doc. N° 15649/05, CADREFIN 264 € 375 million for V-1 Jaslovske Bohunice in Slovakia, € 865 million for Ignalina in Lithuania

<sup>27</sup> Lubelskie, Podkarpackie, Warmińsko-Mazurskie, Podlaskie and Świętokrzyskie

<sup>28</sup> UK's new budget plan not enough to get European Council to reach agreement 15.12.2005.

<sup>29</sup> Anglo-French tensions reignited in EU budget spat, Financial Times, 07.12.2005.

<sup>30</sup> France and Poland unite against UK budget plan, Financial Times, 14.12.2005.

<sup>31</sup> Belgium: Poland presents increased EU budget proposal to Britain, BBC Monitoring European, 16.12.2005.

Finally the demise of the Franco-German axis changed the whole chemistry of the summit and Chancellor Merkel was bringing Blair and Chirac together on the question of the British rebate, and the terms of a review on future EU spending in 2008-09 and after she said she could accept the overall budget rising to 1.045 per cent of GNI the way for an agreement was paved. Britain agreed to cut its rebate during the seven years period and agreed to raise the overall ceiling following the German proposal. Although Spain, Italy, the Netherlands, Sweden and Ireland accepted this compromise, Poland and Hungary were still demanding more and it took a further offer from Berlin, 75 mil EUR originally designated for East Germany and 25 mil EUR for Bavaria, to close the deal.<sup>32</sup>

Polish Prime Minister Kazimierz Marcinkiewicz and several other leaders paid tribute to Chancellor Angela Merkel for having helped broker the deal and offering extra cash at the last minute to meet the new member states' demands. "Merkel at the last minute gave 100 million euros extra for Poland which was the most beautiful and wonderful gesture of solidarity,"<sup>33</sup> said Marcinkiewicz.

Of the overall 862.3 bn EUR EU budget for 2007-2013, 91 bn EUR will go to Poland, making it the single largest beneficiary of EU aid. Poland will receive close to 60 bn EUR in structural aid, a fifth of the community's total structural aid spending.<sup>34</sup>

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<sup>32</sup> Early morning deal ends year of horsetrading by ministers, *Financial Times*, 19.12.2005.

<sup>33</sup> EU leaders agree long-term budget deal, *Reuters News*, 17.12.2005.

<sup>34</sup> European Council, *Financial Perspective 2007-2013*, Doc. N° 15915/05, CADREFIN 268.

## **V Conclusions**

Returning to my preliminary hypothesis we can affirm that in spite of the new cleavage in the negotiation, new net beneficiaries vs. old beneficiaries, and despite the new power relations, enlargement did not provoke a fundamental change of negotiation procedures or influenced the general budget structure, nevertheless it increased the complexity of it, we are counting in the new financial perspectives 18 additional provisions with a financial volume of more than 10 bn EUR.

Analysing the negotiation behaviour of Poland in the given institutional arrangements we could affirm that the behaviour of this actor would have been distinct in a different environment. I detected several institutional variables at the European level which determined actor's behaviour during the negotiation. As we have seen, the institutional environment shaped the behaviour of Poland during financial negotiation. Governments do not necessarily enter EU negotiations with fixed strategies for negotiation behaviour, the strategies are subject to a development and evolve in reaction to discussions and proposals at the negotiating table within the institutional setting. First of all we could see that the decision rule of unanimity forced member states to search for alliances in order to increase their negotiation potential. However, long-term, stable coalitions seem to have been replaced by ad-hoc coalitions with process character which emerge on a case by case basis. The Polish government has made several efforts to form alliances, first with Spain, then with the net contributors but also with the friends of cohesion, later it concentrated on the Visegrad Group and on the wider group of all new EU members and finally Poland focused on the Weimar triangle. But also Poland as the biggest new member state was seen as an important ally by other member states in order to improve their negotiation potential. The changes of Poland from punctual relations with Spain, over its former natural ally GB and to France were important events in the development of the negotiation and showed the new dynamic of partnerships in the enlarged union. Also Cyprus, was expected to back the UK and the 'one per cent club' since this NMS was already a net contributor. However, differences regarding the 'Cyprus question' pushed Cyprus towards France, an ally on that question, but with markedly different economic interests.

Secondly the absorption ceiling of 4 per cent of national GDP and the budget structure determined decisively the negotiation behaviour of Poland. The interests of new member states to join the Union were various and they were not just reluctant to receive

regional aid. However, the cohesion and structural funds are an important element for the future regional development of NMS and were expected by them. Warsaw was mindful of the enormous benefits gained by other countries included in earlier enlargements such as Greece, Ireland, Portugal and Spain and was worried about the fact that similar generosity may not be on offer to the former communist states.<sup>35</sup> Since the CAP spending until 2013 was already agreed and the amount of structural funds were limited by 4 per cent of national GDP, the negotiation margin was very tight and Poland concentrated on fulfilling this margin.

Furthermore the dependency on an agreement at the end of 2005 or at the beginning of 2006 determined the negotiation behaviour of new member states and shaped their behaviour. So the alliance among all NMS broke on this theme since some of them preferred an early agreement to financial losses in the first months of the new financial period.

During negotiations the new member states, especially the Visegrad group were not an obstacle but, on the contrary, contributed actively in the search of a compromise and became shortly at the end of the Council, according to Juncker, the “spirit” of the twenty-five, due to their vital interest on the future of the Union. Also after the Council they showed more pragmatism than other states, when Chirac Schröder and Blair accused those who, in their opinion, provoked the failure. Following this strategy Poland offered to the Foreign Affairs Ministers a meeting to work together in order to reach an agreement which could solve this crisis.

At the end I will return to the question if new member states really “arrived” and participate as equal actors in the Union. During the last decade central and east European countries passed a remarkable transformation in the perception of their west European allies. At the beginning of the nineties these countries were seen by its European neighbours as heroes who shook of communist dictatorship and at the same time as grateful markets for west European products, later as political powder keg since accession negotiations were not specially welcomed in old member states and furthermore as American Trojan Horses, due to their role in the Iraq crisis. However, in recent financial negotiations NMS were seen as allies and serious rivals concerning structural funds and they negotiated as equal partners in the Union. In words of Polish Foreign Minister Stefan Meller: "The situation in the EU has changed, we have

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<sup>35</sup> Poles hit out at 'national egoism', Financial Times, 19.12.2005.

undergone an evolution since we joined the bloc 18 months ago and our priorities from the beginning are now seen in a different light."<sup>36</sup> And Polish Prime Minister Kazimierz Marcinkiewicz told Poland's lower house of parliament on 29 December: "Poland is currently at the heart of Europe and we have stopped being a new member country, we have become one of the EU pillars."<sup>37</sup>

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<sup>36</sup> EU budget summit marks policy shift for Poland, Reuters News, 16.12.2005.

<sup>37</sup> Poland's success in EU budget negotiations reveal it as pillar of EU, PM says, Interfax Poland Weekly Business Report, 30.12.2005.

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