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The Commission's Budgetary Proposal for 2007-2013 and the Special Interests of the New Members

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The Commission's budgetary proposal for 2007-2013 and the special interests of the new members

Àkos Kengyel *

Abstract

On the 10th of February 2004, the European Commission published its proposals for the future financing of the EU. The new Financial Perspective will determine the overall revenue and expenditure of the EU on each category of EU activity for the seven years from 2007 to 2013. It can be anticipated that till the end of 2005, there will be many debates and confrontations among the member states during the process of achieving a final compromise on the budgetary expenditure. This paper examines the budgetary proposal prepared by the Commission, highlighting some of the problematic field of changing. The paper would like to point out the most important interests of the new members of the EU concerning future role of budgetary expenditure.

1. The expectations from a common budget

The EU budget has changed significantly as the union itself has evolved from the original customs union to economic and monetary union. However, it is by no means obvious what the EU budget is for. The common budget of the EU is at the borderline between politics and economics, between market integration and political union, wider economic integration and political union. It has long proved to be a contentious policy area, yet it is far from clear what its fundamental purpose is. (Begg, 1999.)

In relation to the basic tasks of common budget, the following fundamental considerations can be summarized:

The formal justification for the budget is to fund common policies. The logic of common policies dictates that they need to be funded appropriately and the rationale for the budget also demands that member states display a commitment to them. Common policies have the additional property that, once a policy is agreed, it

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cannot easily be administered to ensure that each member states obtains a fair share unless the policy is so distorted that its underlying purpose is traduced;

Another rationale for the EU budget would be to balance gains and losses from European integration. The establishment of the common market and its evolution from single market to economic and monetary union cannot be expected to benefit all participants equally. To the extent that some gain more than others, it can be argued that winners should pay and losers receive;

Cohesion is a third reason for an EU budget. It also implies net payments, although the criterion in this instance is relative prosperity rather than whether or not the member state gains relatively from EU integration. In most nation states, fiscal transfers redistribute from rich to poor areas or from wealthy to badly-off social groups. In the EU, this redistribution occurs through the Structural Funds. These funds are explicitly designed to advance cohesion;

The fourth way of looking at the EU budget is that it constitutes a club subscription for which the members of the club expect to obtain services. In this respect, most of the member states look for a fair return from the budget. A fair return need not mean a precisely equal return, but there is an expectation that the imbalance in net receipts or contributions should not be too great.

Concerning the first consideration, from the early days of the integration, the Common Agricultural Policy (CAP) has been a mainstay of supranational policy, necessitating of resources. Nowadays, expenditure on financing this policy accounts for nearly 50% of the EU budget. Similarly, as cohesion became a more important priority, the sums allocated to the Structural Funds increased progressively to reach their current level of about a third of the budget. This clearly shows that, in budgetary terms, the share of other policies has remained relatively modest.

In relation to the arguments on general benefits and losses coming from being member of the integration, it can be seen that some of the broad bargains at European level reflect this philosophy. It is often argued that thus, for example for Germany, market access and political integration are prizes that make a substantial net contribution to the budget worth paying. The net flows of money under EU budget can be seen in this context as a fair price for non-budgetary benefits. It should be emphasised that budgetary flows do not capture all the benefits from membership. For example, the benefits from the integration process, such as free market access and free movement of capital, cannot be evaluated in terms of budgetary flows alone. Moreover, flows from the EU budget benefit not only recipients, but other member states in the form of return flows. Typical examples are the Structural Funds, where the implementation of projects often gives rise to purchases of goods and services from other member states.

Concerning the importance of strengthening economic and social cohesion, it should be clear that one of the major endeavours as well as one of the consequences of the European integration process is to reduce the differences in development between individual countries and regions and to support the less developed areas in catching up with the others. This process requires joint action to strengthen the predominance of free market forces, as well as the establishment of a support system for the regional policy managed at EU level. If the EU does not have a commitment to reduce the disparities in income differences and living standards, the future of the integrative process would be undermined. It would be unacceptable for citizens in differing parts of the Union to be subject to significantly different standards. (Kengyel, 2000.)

Achieving a position of complete levelling out cannot, of course, be a realistic goal, partly because of the dissimilar historical and geographical circumstances, social expectations and economic resources. Completely equalizing the differences in the standard of living among the individual regions is not only impossible but would not be desirable either, as it would eliminate the basic motivating forces that influence economic activity. On the other hand, however, it is necessary to continuously stimulate regional development and protect the standards of living attained and accepted. It should be noted that the measures promoting cohesion are not meant to replace the EU policies driven by free market principles, but are applied parallel with and in harmony with them: the cohesion measures are a concession to interventionism, but within the general framework of the market.

Concerning fair return, it is true that in aggregate, the EU budget has to balance, but national contributions to, and receipts from it, do not. In any attempt to measure net contributions, there are conceptual problems associated with the calculation that give rise to confusion in the statistics. There are methodological problems in assigning both sides of the budget by member states. Customs duties, for instance, are collected at the point of entry into the EU, with the result that the Netherlands appears to make a very large payment under this heading. The well-known reason for this is that Dutch ports are the main points of entry to the EU from the rest of the world, and this "Rotterdam" effect means that what appears to be a Dutch contribution is often effectively paid by consumers resident in other member states. Budget imbalances arise predominantly on the expenditure side, with spending on both the CAP and structural operations favouring the cohesion countries. The data can be presented in differing ways and this is often a source of confusion. The Germans stress the gross flows, Spain draws attention to per capita gains, while the UK likes to emphasise how little it receives compared to the EU average. Nevertheless, there are undoubtedly systematic imbalances in net payments into the budget, and it is understandable that these engender strong feelings. However, it should be accepted that the principles of solidarity and cohesion require higher level of contribution from the richest member states.

2. New headings of the budget

Based on the past and present experience, most of the battle lines in the current budget fight are well established. First, there is the usual tension between the net contributors and the net recipients about how big the overall budget should be.

Second comes the question of who receives what from the budget. Related to this is the controversial issue of the UK rebate, a mechanism through which the EU refunds two-thirds of the UK's contribution to the EU budget. Although the rebate is not unreasonable in the financial outcomes it produces, it clearly rankles with other members.

Everyone agrees that the EU should only spend money if and when there is an added value from doing so at EU level. All countries have their own views on what constitutes added value. And when it comes to budget allocations, the overriding objective for most member states is to secure fair returns.

There is a growing recognition among the member states that the EU budget has lost its way. The Sapir report described the EU budget as a relic of the past and advocated a radical overhaul. (European Commission, 2003.) Sapir and his colleagues would re-orientate most EU spending towards the promotion of growth and competitiveness and away from the current focus on farmers and poorer regions. Three-quarters of the budget goes on farmers and regional policies of unproven economic value. But the EU spends very little to achieve its declared goal of becoming the world's most competitive knowledge-based economy by 2010 (the so-called Lisbon strategy). Although the Commission proposal for the new budgetary period between 2007 and 2013 borrows language from the report by stressing growth and convergence, it ignores key elements that Sapir advocated.

The Commission identifies three priorities for the new Financial Perspective (European Commission, 2004a):

- completion of the internal market to help in achieving the broader objective of sustainable development,
- completion of an area of freedom, justice, security and access to basic goods in order to promote the political concept of European citizenship, and
- projection of a coherent role for the EU as a global partner.

The Commission sets out its proposals for budgetary expenditure to contribute to meeting these priorities, often in very general terms but incorporating significant new policies and commitments.

The Commission's proposal seems at first sight to break with the tradition of the previous fifteen years by simplifying the structure and promising greater flexibility. The Commission proposed changing the structure of the Financial Perspective from its present one with eight headings (agriculture, structural operations, internal policies, external action, administration, reserves, pre-accession strategy and post-enlargement compensations). The Commission has suggested 5 new headings relating more closely to the Lisbon agenda. The first budget line is no longer the Common Agricultural Policy, but policies to promote competitiveness. However, closer examination suggests that these headings are more or less the same mix of policies as before. There are very cautious and moderate changes and shifts among different policies.

The proposed five main expenditure headings for 2007-2013 are:

(1) Sustainable growth, split between the measures to promote (1a.) competitiveness for growth and employment and to promote (1b.) cohesion for growth and employment;
(2) Preservation and management of natural resources;
(3) Citizenship, freedom, security and justice;
(4) The European Union as a global partner;
(5) Administration including expenditure for institutions other than the Commission (the Commission's own administrative expenditure would be included with other expenditure linked to a particular policy objective, following the logic of activity-based budget management).

2.1. Sustainable development: competitiveness, cohesion and preservation of natural resources

The Commission envisages transforming the EU into a dynamic knowledge-based economy. The new heading entitled "sustainable growth" brings together what used to be called "structural operations" – that is support for the economic development of disadvantaged regions – and the lion's share of what used to be "internal policies" – more than half of which was the EU's research budget. Agricultural subsidies are now a component of sustainable management and protection of natural resources. However, although the proposal relegates agricultural support to a sub-category, the Franco-German deal of 2002 will mean that there is only a negligible decline in the flow of resources to the CAP over the next decade. The deal will maintain ceilings for agricultural spending at around their present levels, while continuing to shift expenditure away from subsidies and towards income support for the poorer farmers. As a result, the CAP will be the second biggest spending item until 2013.
The Commission proposes budgetary support to promote:

- competitiveness for growth and employment (noting the need to implement the Lisbon strategy), by promoting the competitiveness of enterprises in a fully integrated single market; strengthening European research and technological development; connecting Europe through Trans-European Networks; improving the quality of education and training; and helping society, through a social policy agenda, to anticipate and manage change;
- greater cohesion, with three priorities: (1)convergence, (2) regional competitiveness and employment, (3) territorial cooperation (European Commission, 2004b).

(1) Convergence
The key objective of cohesion policy would be the promotion of economic growth and job creation in the least favoured regions. Those with per capita GDP of less than 75% of the average of the EU25 would be eligible for assistance from the European Regional Development Fund (ERDF) and European Social Fund (ESF).

The Commission proposes the allocation of 78% of the combined resources of the ERDF, ESF and Cohesion Fund to convergence projects. Some of the regions of the old member states will have per capita GDP of less than 75% of the average of the EU15 but more than 75% of the average of the EU25. The Commission proposes that these regions should receive transitional funding (phasing out), on a declining scale, between 2007 and 2013.

(2) Regional competitiveness and employment
There would be two main strands under this heading. The regional programme strand would help eligible regions deal with the difficulties caused by industries or urban areas in decline and rural areas with a highly dispersed or ageing population. Regions not covered by convergence programmes would be eligible for financial assistance. Funding for the regional programmes would come from the ERDF. The other strand – national programmes – would assist labour market reforms and strengthen social inclusion by, for example, attracting more people into employment and increasing the employability. Funding would come from the ESF. Spending on the regional and national programmes would account for about 18% of the total cohesion policy budget.

(3) European territorial cooperation
It would be a new programme (but very similar to the present Interreg Community Initiative) to support interregional, cross-border and transnational cooperation to promote joint solution to common problems. The programme would be financed from the ERDF and would be allocated about 4% of the total cohesion budget. The Commission intends to propose the creation of a new agency, the cross-border regional authority, to help national, regional and local authorities manage cross-border projects.
Sustainable management and protection of natural resources (incorporating the Common Agricultural Policy and environmental policy measures), focussing rural development policy on three main objectives: increasing the competitiveness of agriculture through support for restructuring, enhancing the environment and countryside, improving quality of life and promoting diversification of economic activities in rural areas; and implementation of a Climate Change Programme, of the Environmental Technology Action Plan, of the biodiversity action plan and of policies addressing specific issues such as soil and waste recycling.

2.2. European citizenship: freedom. Security and justice

In support of this priority the Commission envisages promoting:

- a "true area of Freedom, Security and Justice" through: management of the EU's external borders by a new European Border Agency (paving the way for a European Border Guard Corps); a common asylum policy; a common

policy on immigration; ensuring security through developing Europol and the European Police College and focusing more strongly on crime prevention;
- "access to basic goods and services", by reinforcing safety, security and environmental standards, developing a disaster response capacity, and possible common frameworks for access to an adequate level of such basic services of general interest as health, education or telecommunications;

European culture and diversity, by supporting cultural cooperation, overcoming the obstacles to cross-border exchanges and fostering youth exchanges and language training.

2.3. The EU as a global partner

The Commission argues that there is a gap between the Union's economic weight and its political weight and that a more coherent external relations strategy would enhance the EU's influence beyond the level that member states could achieve individually. It envisages budgetary support to promote:
a policy for the EU's near neighbourhood (countries immediately bordering the Union). It proposes "stabilising" the near neighbourhood and supporting its development through cooperation in trade, regulatory matters, transport, energy, education, and immigration; ensuring environmental and nuclear safety, energy security; fighting against organised crime; consolidating democracy and encouraging economic reforms;
the EU as a sustainable development partner, through work aimed at eradicating global poverty, a single representation on trade, finance and norms-setting, promoting common member state positions in multilateral negotiations;
the EU as a global player, supporting effective multilateralism and contributing to strategic and civil security.

3. The overall level of expenditure and assessment of proposals

The Commission argues that the challenges it identifies could be financed within the present ceiling of 1.24 per cent of EU gross national income (GNI). It should be noted, that during the past decade this figure has acquired mystical significance, yet it has no economic rationale. Concerning past decisions on budgetary issues, like for example at the Berlin summit on the present budget between 2000-2006, rather than deciding what tasks it makes sense for the EU to fulfil and assigning resources accordingly, the primary aim of member states seems to have been to enforce the 1.24% limit, thereby ruling out any transfer of competence to the EU level in areas requiring public spending. The Commission's cautious proposal for maintaining this rather low level for the next budgetary period could mean that the

EU's capacity to take seriously on wider tasks will be hampered by the absence of suitable funding.
Although no change in the ceiling is suggested, the Commission proposal foresees an average over the seven years of 1.14% of GNI, 0.10 of percentage point below the ceiling, but well up on the average for recent years. For several years, actual spending has been well below the agreed ceiling of 1.24 per cent of GNI. The EU's common budget in practice amounts to about 1 per cent of the member states combined GNI. In comparison, we should have a look at that the US federal government, for example, has a budget 20 times larger than the EU's and national budgets in the EU typically amount to 45 per cent or more of national income.
There is unlikely to be supported, in the foreseeable future, for moving beyond the ceiling of 1.24% of EU GNI. The new members, unsurprisingly, would prefer to see the budget maintained at or above its present level as a proportion of GNI, while the net contributors have made their position clear. Six of the richer member states (the United Kingdom, France, Germany, Austria, Sweden and the Netherlands) had already written a letter in December 2003 demanding that the budget be capped at 1% of EU GNI. The Commission asserts that a budget limited to 1 per cent of EU GNI, as favoured by the six net contributors, would prejudice fulfilment of the commitments and would mean the EU having to reduce its efforts in terms of external aid, reduce support for rural development, decrease cohesion support, retreat from commitments it has already made, its new neighbourhood policy or security tasks.
However, because GNI itself is expected to grow, the upshot would be a 25% increase in the size of the EU budget between 2006 and 2013.
The most important question is that the EU budget can realistically contribute to the Lisbon goals as suggested in the Commission proposal? The Lisbon strategy has, up to now, functioned under the open method of co-ordination (OMC), a procedure under which member states pursue common objectives, but are free to adopt forms of implementation that suit their national circumstances. It can be argued that one way of motivating governments to conform is to offer incentives via the EU budget, but even with the proposed new budget line targeted at competitiveness, the sums available will only reach 18% of expenditure or 0.2% of GNI by 2013 under Commission proposals.
The Commission's proposal offers little that is new or innovative. Despite the new labels, the expenditure items are largely more of the same. The key changes in the new budgetary proposal are more apparent than real. (Begg, 2004.) However, the promotion of competitiveness for growth and employment takes a prominent position, spending under this heading can be expected to include an enhanced research budget, more money for Trans-European Networks in transport, energy and communications: by and large, this is more of the same as before. Supports for the really new heading on European citizenship, freedom, security and justice will reach only 2% of total expenditure. It shows that those measures connecting this priority must be basically financed by national budgets.

Financial Perspective 2007-2013 (EUR million at 2004 prices)

	2006*	2007	2008	2009	2010	2011	2012	2013	2007-13
1. Sustainable growth	47,582	59,675	62,795	65,800	68,235	70,715	73,715	76,785	477,665
1a. Competitiveness for growth end employment	8,791	12,105	14,390	16,680	18,965	21,250	23,540	25,825	132,755
1b. Cohesion for growth and employment	38,791	47,570	48,405	49,120	49,270	49,410	50,175	50,960	344,910
2. Preservation and management of natural resources	56,015	57,180	57,900	57,115	57,980	57,850	57,825	57,805	404,655
Agriculture	43,735	43,500	43,673	43,354	43,034	42,714	42,506	42,293	301,074
3. Citizenship, freedom, security and justice	1,381	1,630	2,015	2,330	2,645	2,970	3,295	3,620	18,505
4. The EU as a global partner	11,232	11,400	12,175	12,945	13,720	14,495	15,115	15,740	95,590
5. Administration	3,436	3,675	3,815	3,950	4,090	4,225	4,365	4,500	28,620
Compensations	1,041								
Total appropriations for commitments	120,688	133,560	138,700	143,140	146,670	150,200	154,315	158,450	1,025,035
Total appropriations for payments	114,740	124,600	136,500	127,700	126,000	132,400	138,400	143,100	928,700
Appropriations for payments as % of GNI	1.09%	1.15%	1.23%	1.12%	1.08%	1.11%	1.14%	1.15%	1.14%
Margin available	0.15%	0.09%	0.01%	0.12%	0.16%	0.13%	0.10%	0.09%	0.10%
Own resources ceiling as % of GNI	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

* 2006 expenditure under the current financial perspective has been broken down according to the proposed nomenclature for reference and to facilitate comparisons. Source: Building our Common Future: Policy challenges and budgetary means of the enlarged Union 2007-2013. COM(2004) 101. 10 February 2004. Brussels

By 2013, spending on the CAP and on cohesion policies will be 0.75 per cent of EU GNI, compared with the figure of 0.79 per cent in 2006, at the end of the current financial perspective. Although the shift towards competitiveness and growth is a sensible and welcome one, there is a disparity between ends and means. According to the Commission's proposal, the allocation for policies to promote growth and competitiveness will double, to reach EUR 25 billion by 2013. But, it should stress again, that still only amounts to 0.2 per cent of EU GNI while agricultural subsidies would still be 0.34 per cent.
Since the new financial perspective runs until 2013, real reform would be off the agenda until the next decade. The budgetary proposal will not convincingly prepare the EU for the future challenges. The new budget negotiations could turn out to be yet another missed opportunity.

4. Special interests of the new members

In general, we should say that new member states need an equal treatment and equal opportunities in taking part in the different fields of common policies and measures. This is important to stress, because during the pre-accession phase and the first three years of membership there were and are several "phasing in" type approaches which mean no equal treatment. (Kengyel, 2003.) This relates to the direct payments in the case of agricultural supports, or it is relevant in the field of structural funds assistance. Since 2007 the new members can accept only equal treatment compared to the old member states. The same rules and obligations should relate to the old and new members as well.

4.1. Supporting catching up process

The new member states number one priority is supporting their economic and social modernisation and a successful catching up process. In this respect the cohesion policy and other measures improving competitiveness have a crucial importance. All the new members are less developed economies, which need external resources for the modernisation process. If we have a look at the Commission proposals we can expect that under sustainable growth priority the new members will be eligible for serious resources through the Structural Funds and the Cohesion Fund. The new budgetary period should offer a real opportunity to reach appropriate level of resource transfers compared to the former periods.
Until the end of 2006 the resources will be rather limited, however, the full member status resulted at a much better situation in this respect. In the pre-accession period candidate countries had access to EUR 3.12 billion yearly from the budget accepted at the Berlin European Council. For the period 2000-2006 this amounts to a total of EUR 21.84 billon. According to the final agreement reached at the Copenhagen

European Council in December 2002 the 10 new members will be entitled for EUR 21.8 billion (EUR 14.256 billion from the Structural Funds and EUR 7.591 billion from the Cohesion Fund) for the period 2004-2006. These amounts remained quite modest in size compared to what the old member states receive. This is related to the expected limited absorption capacity in the first years of membership. Structural aid to the new member states will only amount to around 0.5% of GDP in 2004, and will be steadily increased to around 1.3% of GDP by 2006. The similar figures were and are between 3.5-4% in Greece or Portugal.

The restriction, which was introduced since 2000, concerning the upper limit of subsidies to be claimed from the EU will be prolonged also for the next budgetary period. Under this rule, the member states must adhere to the principle that transfers received from the Structural Funds and the Cohesion Fund may not exceed 4% of the given country's GDP. This regulation actually sanctioned the situation that has developed with the main former beneficiaries and made this ratio the maximum of the subsidies provided. Part of the reason for this was certainly the wish to avert possibly very high GDP-dependent claims for subsidies by the new members. According to some estimation the transfer to be directed to the more developed new member states amounts to 8-12 per cent, which can be considered as the upper limit of efficient absorption for some years of heavy investment in infrastructure. (Inotai, 1997.)

It should be noted that it may be misleading to make comparisons between the new members and the experience of the less developed old member states, as, for several reasons, the absorption capacity of the Central and East European countries could reach higher level than that of the peripheral countries of the EU had earlier, because: the inhabitants of the new member states have a higher level of general education than those of some less developed EU countries had 10-15 years ago or have even today; the new members have a favourable geographic location: infrastructural projects that cross their territory may exert a substantial multiplier effect on the economy and enhance the absorption capacity; as a result of transformation, the Central and Eastern European countries have gained a relatively high level of social and institutional flexibility, which again correlates positively with efficient absorption.

On the other hand, obviously, there are very serious institutional (for example concerning the programming process or monitoring bodies, etc.) and financial (co-financing) conditions to be fulfilled in order to become eligible for supports. The new members have to prove their ability to absorb these resources in an efficient way even during the first three years of membership. Any kind of failure, like institutional deficiencies or lack of relevant programmes and projects or even the problems of co-financing, would have a very bed message for the next budgetary period. The net contributors of the budget could argue that less financial resources would be enough in the future, because these countries were not able to use even the smaller amount of money which were available. During the next budgetary

period, the new members should endeavour to reach the declared upper limit of 4% resource transfer.
Within the different types of support the most important field could be to finance Cohesion Fund type projects, because the basic physical infrastructure is in very poor condition. Improvement of transport links within the framework of the Trans-European Transport Networks and environmental investments are needed to develop the circumstances that are important in attracting investors, and to improve quality of life. In this respect, even a new priority objective or fund would be a realistic need for Central and Eastern European new members. This new priority or fund would exclusively deal with supports for big investment projects in the new member states. Obviously other types of interventions, like human resource development programmes or information technology based projects, are also playing definite role in modernisation. This is why a well-defined national development policy and strategy also plays a crucial role.
As far as the amount of financial resources within the cohesion policy is concerned, the new members should work together with the old beneficiaries of the common budget to reach as high level of expenditure commitment as possible. Obviously, concerning the future of the EU level regional policy, different old and new member states have different views on the rules for the period 2007-2013, depending on their likely receipts, and whether or not they are net contributors to the EU budget. In conclusion we can say that the amount of regional supports will dominate the negotiations on the budgetary rules for the period 2007-2013. Some of the current member states are likely to battle for appropriate compensation for the expected loss of a substantial part of their subsidies after 2006. (For example, according to some calculations Spain will be the major loser with its Objective 1 support set to fall by EUR 5 billion per year plus EUR 1.6 billion from the Cohesion Fund. This is almost 1% of Spanish GDP.)
The arguments in favour of a strengthened cohesion policy could be based on the following considerations:

- enlargement presents an unprecedented challenge to the competitiveness and internal cohesion of the EU;
- the EU faces challenges arising from globalisation, technological development and changes in demography;
- economic growth has slowed and unemployment increased;
- moreover, cohesion policy must be seen as an integral part of the Lisbon strategy to make the EU the world's most dynamic and competitive knowledge-based economy.

4.2. Important measures as consequences of geographical situation

Because of geographical situation, the new members have special interests in policies, which are dealing with neighbouring countries of the EU. In this respect there are several new initiatives of the Commission of great importance. First is the new type of territorial cooperation within the cohesion policy. Since the beginning of the 1990s, the cross-border relations have started to develop between Central and Eastern European countries. These forms of cooperation need to be strengthened and supported also by EU budgetary resources. In this respect the proposed 4% of cohesion policy expenditure for territorial cooperation seems to be very low level of funding for these programmes. It should be noted that compared to Interreg sources this share is higher than the present 2.5%, but remains very limited. When we are talking about regions of Europe and importance of subsidiarity principle and decentralisation, greater emphasis should be given to these types of cooperation.

The other new initiative of the Commission is the new type of neighbourhood relations. This priority as part of the EU as a global partner budgetary line also has very important role for the new members. It is self-interest of the new members and the EU as a whole, to develop a complex relationship with bordering countries and to create close cooperation with these countries along the external borders of the EU. Obviously, the new members welcome the Commission's proposal for establishing a new neighbourhood policy.

The third strategically important consequence of being the external border of the Union is, that the initiative for setting up a common European Border Agency and strengthen the common policies in the field of immigration and other related issues are very important fields of the proposal for the new members. These new measures and institutions should be strengthened in financial terms as well.

5. Concluding remarks

The Commission's budgetary proposal for 2007-2013 is not just concerned with the future finances of the EU but also sets out the Commission's policy agenda for the period between 2007-2013. The proposal is at a high level of generality, but it outlines a full and detailed agenda, within which are suggestions about significant changes and expansions of policy. The main conclusion of this paper is that there are very cautious and moderate changes and shifts among different policies, but the new initiatives are basically in favour of the new members.

The Commission's proposal simplifies the structure of the budget and suggests 5 new headings relating more closely to the Lisbon agenda. The first budget line is no longer the Common Agricultural Policy, but policies to promote competitiveness. However, it should emphasize that the allocation for policies to promote growth and competitiveness only amounts to 0.2 per cent of EU GNI while agricultural subsidies would still be 0.34 per cent. Spending on the CAP and on cohesion policies will be 0.75 per cent of EU GNI, compared with the figure of 0.79 per cent in 2006, at the end of the current financial perspective. Closer examination suggests that the new headings are more or less the same mix of policies as before. The most important exemption is the really new heading on European citizenship, freedom, security and justice, but the expenditure under this heading will reach only 2% of total expenditure. It shows that those measures connecting this priority must be financed basically by national budgets.

The new members would like to get equal access to all policy areas and supporting measures, particularly to the Structural Funds and Cohesion Fund as major instruments to support their modernisation process. Although future resource transfer was not the only reason to become a full member of the EU, this field plays a very important role for the Central and Eastern European countries. There is no doubt that it is of high importance for the historically undercapitalised economies to accelerate their modernisation process, among others, also by having full access to EU funds. Union solidarity should be fully justified for the new members faced with major development needs, especially in the field of infrastructural investments, including those for the environment, the productive sector and human resources. The new member states need heavy investment in areas such as environmental protection, transport, energy, industrial restructuring, agricultural infrastructure and rural society.

Total transfers from the Structural Funds and the Cohesion Fund should not exceed 4 per cent of a member state's GDP. Regarding absorption capacity, previous EU experience could be misleading, because the inhabitants of the new members have a higher level of general education than those of some less developed EU countries had ten years ago or even today; the new members have a favourable geographic location (infrastructural projects that cross their territory may exert a substantial multiplier effect on the economy and enhance the absorption capacity); and as a result of transformation, the Central and Eastern European countries have gained a relatively high level of social and institutional flexibility, which again correlates positively with efficient absorption. The new members should endeavour to reach at least the declared upper limit of 4% resource transfer.

Because of geographical situation, the new members have special interests in policies, which are dealing with neighbouring countries of the EU. In this respect there are several new initiatives of the Commission of great importance: the new territorial cooperation, the new type of neighbourhood relations, and the initiative for setting up a common European Border Agency and strengthen the common policies in the field of immigration. These new measures and institutions should be strengthened in financial terms as well.

The more members the EU has, the more important it will become for EU policies to be transparent and efficient. If there are no sensible and comprehensible rules for how the burden of financing the budget should be split, then compensation package deals will increase and the subsidisation mind set will dominate the EU. This would endanger the general acceptance of European integration.

It is sometimes argued, either explicitly or implicitly, that the size of the EU budget is an important index and symbol of the European Union's internal integration.

There is some truth in this contention. An EU budget representing 10 per cent of EU GNI – ten times as high as at present – would clearly imply a munch higher degree of supranational integration than that which now obtains. But the EU budget is by no means the only or even the best index of the current state of European integration. The programme for the Single European Market was not one constructed on a large central budget, but on the common rules which are a defining characteristic of the European Union's integrative model. Even the single European currency was set up and has functioned until now without the counterpart of a macro economically significant central budget.

It might be that, at some point in the future, the member states concluded that they needed to make arrangements for a substantial budgetary counterpart to the single currency. If they did, the rules of the European budgetary game would change fundamentally. Without such fundamental change, however, the European budget will continue to play a relatively limited role in the process of European integration.

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