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Financial Perspectives (Framework) 2007-2013 and the Challenge of the Eastern EU Enlargement

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Summary

The new Financial Framework (FF) indicates the financial means that are needed to address future internal and external challenges in an enlarged Union of 27 Member States. The agreed Financial Framework groups EU policies and activities into broad categories of expenditure (headings), lays down the maximum amount in Euros for each heading for each year of the period 2007-2013. In the EU annual budgets those maximum ceilings have to be respected. Priorities for the new FF are in some ways different from the old Agenda 2000 (1999-2006): they aim at making the next EU enlargement (Bulgaria, Romania) a success. The priorities are to increase the Union's competitiveness substantially (Lisbon Process updated), to boost the European economy and to create more and better jobs. Furthermore, they aim to realise the concept of a European Union citizenship by expanding the area of freedom, justice and security, while last but not least strengthening the role of EU in the world. After difficult negotiations and the efforts of the British and Austrian Presidencies, in the Financial Framework Deal it was decided on a total of € 864.4 billion, with a substantial slice earmarked for the new Member States after 2004; they are all net beneficiaries from the EU budget. However, in our opinion, the main focus of the headings of the Financial Perspective 2007-2013 (Agriculture, Cohesion) only partly reflects the real internal and external challenges facing the enlarged European Union in the next few years.

1. The role of the Financial Framework for the budgetary base and financing of EU policies – general remarks and explanations

In the new Financial Framework it is stated which financial means are necessary to address future internal and external challenges effectively and equitably, including those resulting from disparities in the levels of development in an enlarged Union. The Framework should attest the determined efforts towards budgetary discipline in all policy areas within the context of budgetary consolidation in the Member States. Policies agreed on in accordance with the Treaty should be consistent with the principles of subsidiarity, proportionality and solidarity. They should also provide added value (Council of the EU, December 2005).

The new Financial Framework covers the seven years in the period 2007-2013 and is drawn up for the European Union comprising 27 Member States on the working assumption that Bulgaria and Romania will join the Union in 2007. The amounts allocated to Romania and Bulgaria in their respective treaties will be respected.

The implementation of most EU policies requires not only a legal framework, but also (sometimes huge) financial means. For example, competition and taxation policies are based almost exclusively on legislation. But the practical implementation of most other policies is based on a mixture of legislation and financial measures (regional, structural, agricultural and development).

Many other policies would be seriously limited without EU financing. For the purpose of budgeting EU policies the key political document of the Financial Framework is a multi-annual spending plan that translates European Union policy priorities into financial terms.[1]

The political and institutional balance of the Community's system of finance gradually deteriorated in the 1980s when, as a result of ever-increasing strains and conflicts, the annual budgetary procedure became increasingly difficult to administer. There was a growing disparity between resources and requirements. A succession of budget crises prompted the Community institutions to agree on a method designed to improve the budgetary procedure, plus ensuring budgetary discipline.

In line with an Interinstitutional Agreement, the European Parliament, the Council and the Commission agree in advance on the main budgetary priorities for the following period, and establish a framework for Community expenditure in the form of the Financial Perspective. The Financial Perspective (framework) shows the maximum amount and the composition of foreseeable expenditure of the EU. The Financial Perspective imposes a dual ceiling on expenditure: one for total expenditure and one for each category of expenditure.[2]

For 2000-2006 it was calculated with pre-accesion aid for twelve applicant countries, for 2004-2006 with transitional compensation for the new member states (Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia).

The expenditure priorities (headings) deal independently from one another which means that a budget heading can be financed only from a given heading (in the period 1999-2006 there were eight headings: Agriculture, Structural Operations, Internal Policies, External Action, Administration, Reserves, Pre-Accession Strategy, Compensation). Each heading should be financed to the extent that a redeployment of expenditure between operations under the same heading is possible, and where necessary to deal with unforeseen situations.

As regards the overall ceiling for expenditure: an aggregate ceiling on commitment appropriations is obtained by adding together the various ceilings for individual expenditure headings. To check for compatibility of the Financial Perspective with the ceiling for its own resources that constitutes the absolute limit on the resources that the Member States can make available to the Union, an annual ceiling is also established for payment of appropriations. It is expressed as a percentage of the estimated EU Gross National Income. There is a margin for unforeseen expenditure, to allow the Financial Perspective to be revised so as to cover any expenditure which is unforeseen when the Financial Perspective is adopted; and to leave a safety margin should economic growth be lower than forecast, and actual GNI lower than expected.[3]

For the EU institutions and the Member States it is important that the Financial Framework sets limits on EU expenditure over a fixed period (2007-2013) and creates conditions for imposing budgetary discipline. It must be accepted without reserve in the framework of the European Council. This is not an easy task to achieve.

The Financial Framework is always the result of difficult bargaining among the Member States; with differing positions of members who are paying more into the budget than they receive (net contributors), and members who receive more than they pay in (net beneficiaries). The latter group consists of all EU newcomers as of 1. May 2004. The general budgetary position of individual Member States may influence the view of the general public on the EU, and not always with a positive outcome. The fact that all countries from Central and Eastern Europe are net beneficiaries was crucial to the discussions on accession to the EU.

The EU Financial Framework groups EU policies and activities into broad categories of expenditure / headings). Moreover, it lays down the maximum amount in Euros for each heading per year between 2007 and 2013. In the EU annual budgets those maximum amounts, or „ceilings“ must be respected.

The question is why it is necessary for the integration of a market economy to cultivate such a tool of „planned economy“. It is a fact that the Treaties are too general to deal with matters such as multi-annual actions and budgetary discipline in an operational manner. The main purposes are:[4]

- to ensure that the evolution of budgets over several (seven) years is controlled.
- to aid the planning of multi-annual programmes and projects.
- to ensure a predictable inflow of resources for the Union‘s long term priorities.
- to facilitate the annual budgetary procedure for all players, to make it easier for the European Parliament and the Council of the European Union, the two important budgetary authorities, to agree on the annual budget.
- to give Member States greater certainty by providing revenue for the EU budget.
- to give greater certainty and more key information to all actors concerned: regions, interest groups, civil society organisations, farmers etc., as well as to plan long-term projects partly financed by the EU budget.

For a better understanding of the strategic role of the Financial Framework a brief overview of the former developments, linked with the extraordinary dynamics of the process of EU integration that started in the 1980s, will be presented:

The First Financial Framework (Delors Package I) covered the years 1988-1992 and was concentrated on establishing the Internal Market and consolidating the multi-annual research and development framework programme. The Second Financial Framework covered the years

1993-1999 (Delors Package II) and focused on Social, Regional and Cohesion Policy and, of course, on the preparation of the European Economic and Monetary Union, the introduction of the Euro. The Third Framework covered the period 2000-2006 (Agenda 2000) and prepared the financial underpinning of the Big-Bang enlargement (ten new Member States). The Financial Framework for 2007-2013 was prepared by the Commission and in June 2006 accepted by the European Parliament, under the Austrian Presidency of the EU. It is the fourth Financial Framework.

2. Priorities for the Financial Framework 2007-2013 in view of the mediocre EU economic performance in recent years

First of all, the priorities of the new Financial Framework are in some ways different from the Agenda 2000.

The Financial Framework 2000-2006 was focused on:

- preparing the European Union for the historically important enlargement (which took place in May 2004),
- introducing the reform of the Common Agricultural Policy (CAP) and
- increasing the effectiveness of the Structural Fund in the poorer regions and Member States, as well as looking for ways of coping better with growing economic gaps.

The Framework 2007-2013, in general, aims to:[5]

- make a success of the former and prepared enlargement (Bulgaria, Romania etc.),
- increase the Union's competitiveness generally,
- boost the European economy and create more and better jobs,
- realise the concept of a European Union citizenship by expanding upon the area of Freedom, Justice and Security,
- strengthen the role of the EU in the world.

From the point of view of the European Commission, the strategic activities of the enlarged European Union in the next seven or ten years should concentrate on three main priorities; (this is an extraordinary challenge for most of the new Member States):[6]

- Integrating the single market into the broader objective of sustainable development and mobilising Economic, Social, and Environmental policies to that end. The goals under this priority, which corresponds to the new headings 1 and 2, are Competitiveness, Cohesion, and the Preservation and of natural resources, including market related expenditure and direct payments.
- Giving a real meaning to the concept of European citizenship by expanding the area of Freedom, Justice and Security, and granting access to basic public goods and services – this priority is embodied in heading 3.
- Establishing a coherent role for Europe as a global partner, based on its core values, by taking up its regional responsibilities, promoting sustainable development and contributing to civilian and strategic security. This corresponds to heading 4.

Some further remarks on the structure of the Financial Framework 2007-2013: The total sum of Commitments / Appropriations in the Financial Framework for this period is € 864.32 billion.

Heading 1 (Sustainable growth) is divided into two components with very strong linkage and interdependence. Commitments /Appropriations for this heading are € 382.14 billion.

1a) Competitiveness for Growth and Development, encompassing expenditure for research *and* innovation, education and training, EU networks, the Internal Market and accompanying policies. Money available: € 74.10 billion. The following objectives are important:

a) promoting the competitiveness of firms, entrepreneurship, the growth of small businesses, the introduction of information technology in public services, eco-efficient technologies;
b) stepping up and improving the area of European Research and Development, increasing the amount of public investment for independent researchers, more partnerships (with priority sectors being space and security);
c) connecting Europe through EU networks (a list of 26 projects has been drawn up for the period up to 2020 with a peak in the period 2007-2013);
d) improving the standard of Education and Training, particularly by enabling millions of university students to benefit from this by 2010, and adults taking part in lifelong learning;
e) achieving the Social Policy agenda; this agenda is an integral part of the open method of Coordination and Social Dialogue.

1b) Greater Cohesion for Growth and Employment, designated to enhance Convergence. The second component of Heading 1 focuses on three priorities and € 308,04 billion has been made available for this.

a) Convergence: efforts must be concentrated on the least-developed Member States (this is a very important signal for the new members of the EU);
b) Regional Competitiveness and Employment: this objective targets regions affected by Convergence;
c) European Territorial Cooperation through cross-border and trans-national cooperation.

Heading 2 (Conservation and management of natural resources) includes the Common Agricultural and Fisheries Policies, Rural Development and Environmental measures. The amount that was decided on for CAP reflects the agreement reached at the Brussels European Council in October 2002. Expenditure for the CAP is also already fixed for the whole period 2007-2013.

In 2002, the basis for the agreement of the heads of states and governments of the EU Member States was that the amount foreseen for agriculture for the year 2006 (in the Agenda 2000) should be extended until 2013. The expenditure ceiling increased by 1% less than the expected annual inflation rate of 2%. The Commission proposed only the costs of the expected requirements for Romania and Bulgaria. For heading 2 € 371,34 billion was budgeted. From this total, € 293,11 billion Euro is earmarked for market related expenditure and direct payments.

Heading 3 is new (Citizenship, Freedom, Security and Justice) and very important for the future of the integration process and the EU's standing in public opinion.

This heading reflects the growing importance (and at the same time a certain fear among the wider public in the old EU Member States) of some policy areas where the Union has been assigned with new tasks: Justice and Home Affaires, Border Protection, Immigration and Asylum Policy, Public Health and Consumer Protection, Culture, Youth, Information and Dialogue with citizens. For Heading 3, € 10,77 billion have been earmarked. The management of the funds will to a great extent be shared among the Member States. The Commission proposed the creation of a new EU body, an Agency for External Borders.

This heading also proposes programmes and activities to ensure access to European culture and diversity. For the area of Freedom, Security and Justice the Commission proposed the creation of the European Border Guard Corps, a Common Asylum Policy and Common Immigration Policy; priority lies in strengthening Europol and the European Policy College.

Heading 4 (The European Union as a global partner) covers all external action, including pre-accession instruments, the integration of the European development fund in the budget as well as the current reserves for emergency aid and loan guarantees. In the Financial Framework, the financial means assessed for these purposes is € 49,46 billion for the period 2007-2013.

The emphasis of this part of the Financial Perspective is to achieve a level of political influence which is commensurate with the economic influence of the EU. As a partner in sustainable development, the EU fights poverty goals set by the United Nations and promotes common positions. It works for effective multilateralism and contributes to coherence in bilateral relations and in international institutions. For this heading, the Commission proposed a drastic simplification of instruments and underlined the importance of results in relation to the attribution of resources.

Heading 5 (Administration) covers expenditure for institutions other than the Commission, Pensions and European Schools.

It is very interesting that the expenditure for the Commission's administration is included directly under the relevant operational headings. This is in line with a new approach, the rationale of activity based management which already forms the basis for establishing the annual budget. The new concept allows the budgetary authority to discuss and vote on the operational and administrative appropriations for each policy area simultaneously. For this heading, € 49,80 billion is earmarked.

In comparison with the Agenda 2000 (1999-2006), which contains 8 headings and 11 subheadings, the new Financial Framework is "simpler and less rigid" – as commented by some experts. Distribution of resources among a large number of headings makes the system too rigid and thwarts the more effective use of resources to achieve the European Union's policy goals. With a smaller number of headings the EU reflects the broad policy goals, and also creates crucial buffers and flexibility to allow for developments which cannot always be precisely predicted ten years in advance.

3. The idea of enlargement is strengthened, financing for 2007-2013 is secured

After very difficult negotiations and intense bargaining and many dissatisfied parties, the new Member States are now full participants in the Financial Framework exercise.[9] The threat of EU financial and political paralysis, which for a certain time was quite likely, has been left behind as the deadlock was overcome. The EU now has the funds to match the ambitions of the old and new Member States for the development of an enlarged EU for the next seven years. Multi-annual financial planning is back on track and new programmes can be launched as of 2007.

Compared to December 2005, in the Financial Framework Deal (UK Presidency):

- an extra € 4 billion was allocated for political priorities,
- an additional € 2,5 billion was mobilised by the European Investment Bank for achieving the Lisbon objectives),
- the overall ceiling of the amount earmarked for 2007-2013 increased from € 862,4 billion to € 864,4 billion, and was complemented by a huge increase in flexibility.

Table 1 – More money for EU priorities (Euro)

Priority	**Extra Funds**
1a. Competitiveness for Growth	+ € 2.1 Bn
1b Cohesion for Growth	+ € 300 mil.
2. Preservation and Management of Natural Resources	+ € 100 mil.
3. Citizenship, Freedom, Security and Justice	+ € 500 mil.
4. The EU as a Global Partner	+ € 1 Bn
Total commitments	+ € 4 Bn

Source: Financial Perspectives 2007–2013. Dalia Grybauskaité, Commissioner for Financial Programming and Budget, Brussels, 6. April 2006, p.2–6.

Table 2 –Towards Lisbon-related goals (Euro)

Purpose of the money	**Extra money**
For the Social Agenda	+ 100 mil.
For Competitiveness and Innovation	+ 400 mil.
For trans-European networks	+ 500 mil.
For Research and Development	+ 300 mil.
For Lifelong Learning	+ 800 mil.

Source: Financial Perspectives 2007-2013. Dalia Grybauskaité, Commissioner for Financial Programming and Budget, Brussels, 6. April 2006, p. 2-6.

An important part of the agreement about the Financial Framework 2007-2013 is the budgetary review clause, which ensures that the Commission reports on all aspects of the Community budget, at the latest before the end of 2009. This is the code for some possible new steps towards Lisbon in the budget policy of the EU.

Table 3 – The final deal of the Financial Framework 2007-2013 (Euro)[10]

Priority	**Amount**
1a. Competitiveness for Growth	74,2 Bn
1b Cohesion for Growth	307,9 Bn
2. Preservation and Management of Natural Resources	371,3 Bn
3a. Freedom, Security & Justice	6,6 Bn
3b. Citizenship	4,1 Bn
4. The EU as a Global Partner	49,5 Bn
5. Administration	49,8 Bn
6. Compensations	0,8 Bn
Total	**864,4 Bn**

Source: Financial Perspectives 2007-2013. Dalia Grybauskaité, Commissioner for Financial Programming and Budget, Brussels, 6. April 2006, p. 2-6.

Notes

1) Häufig gestellte Fragen zur Finanzvorschau. Finanznachrichten, 11/12, Göttlesbrunn : R. Göweil, 2005, p.33-35.

2) Towards a new financial framework 2007-2013. European Commission, Communication of 14 July 2004 to the Council and the European Council, Summary, COM(2004) 487; Financial Perspective 2007-2013, Council of the European Union, CADREFIN 268, 15915/05, Brussels, 19 December 2005 (From Presidency to European Council). In this document the maximum total figure for expenditure for EU 27 for the period 2007-2013 was 862,363 billion Euro in appropriations for commitments, representing 1,045% of EU GNI.

3) Ibid.

4) Häufig gestellte Fragen zur Finanzvorschau. Finanznachrichten, Göttlesbrunn : R. Göweil, 11/12, 2005, p.33-35.

5) Häufig gestellte Fragen zur Finanzvorschau. Finanznachrichten, Göttlesbrunn : R. Göweil, 11/12, 2005, p. 33.

6) Der EU Finanzrahmen 2007-2013. Preparations for the next financial framework 2007-2013. Finanznachrichten, 05/2005, Göttlesbrunn : R. Göweil, p. 15.

7) Towards a new financial framework 2007-2013. European Commission Communication of 14. July 2004 to the Council and the European Council, COM (2004) 487.

8) Der EU Finanzrahmen 2007-2013. Finanznachrichten, 05/2005, Göttlesbrunn : R. Göweil, p.15.

9) Financial Perspectives 2007-2013. Dalia Grybauskaité, Commissioner for Financial Programming and Budget, Brussels, 6. April 2006, p. 2-6.

10) Ibid., p. 9.