ROMANIA'S EU ACCESSION NEGOTIATIONS: THE SIGNIFICANCE OF THE EU BUDGET[1]

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Abstract. *Romania completed its negotiations for accession to the European Union, as scheduled, by the end of 2004. The experience of the negotiations over the 2004 enlargement confirmed that the EU budget is an absolutely key issue in such talks. The purpose of this paper is to consider the context of Romania's negotiations over the EU Budget. First, we look at the relationship the EU15 member states have with the EU budget. We show how rules governing the operation of the EU Budget have affected budgetary flows to the EU15 and highlight the stability over time of the shares of total budget flows to and from each member state. Second, we look at the experience of the new Member States in their accession negotiations and review the outcomes. This will allow us to see how the political economy of the EU Budget affected the talks and the deal the new member states were able to secure. We then apply the lessons learned to the case of Romania. Our analysis reveals inflexibilities in the negotiations that left Romania more or less facing a 'take-it-or-leave-it' offer.*

1. INTRODUCTION

2004 was a momentous year for the European Union. Ten countries from central, eastern and southern Europe joined on 1 May and, on schedule, Romania and Bulgaria completed their negotiations for accession in 2007, albeit with certain conditions still to be met for 2007 entry. In this paper we focus on the one area of discussion that, despite not being the subject of any of the 31 negotiating chapters, was absolutely crucial to the successful conclusion of the talks – the magnitude (and, by implication, the distribution) of the financial flows between the EU Budget and the member states. The EU budget has, for many years, had a political significance far in excess of its modest economic size. It was therefore not surprising that the talks over money should prove acrimonious.

This paper has two goals. First, we analyse the relationship between the EU15 and the EU Budget, along with the experience in the accession negotiations of the New Member States (NMS), to provide context to Romania's financial agreement. Second, we place this discussion within the context of the politics and rules under which the EU Budget operates. These serve to emphasise the constraints, economic and political, within which all applicant states have had to negotiate their future budgetary relations with the EU15.

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[1] An earlier version of this paper was presented in May 2004 to "Symposium 37" at the University of the West, Timişoara and to the European Institute of Romania, Bucureşti. It also draws on related work presented to "Constructing World Orders", SGIR 5th Pan-European Conference, The Hague, in September 2004. The author thanks participants for helpful comments. Whilst the title of this paper looks remarkably similar to Mayhew 2003b, published in this Journal, this paper has been designed, as far as possible, to present ideas complementary to Mayhew's, focusing on EU budgetary *processes*.

The paper is divided as follows. Section 2 sets out the key features of the EU Budget. Section 3 considers the consequences of the EU Budget process for the distribution of transfers amongst the EU15 member states. Section 4 uses this as the basis for explaining the shape of the budgetary agreement for the 2004 enlargement. In Section 5 we draw this together to offer an insight into the budget agreement for Romania. Section 6 concludes.

2. THE EU BUDGET – FEATURES AND PROCESSES

The EU Budget is the means by which the EU funds most of its activities.[2] We begin by noting some of its main features (see, *inter alia*, Ackrill, 2000; Laffan, 2000 for more details). First, it is extremely small. Annual spending is limited to about 1% of EU Gross National Income (GNI)[3], whereas EU member states' national budgets currently range from about 35% of GDP to about 60% (Romania sits at the lower end of this range). Second, the EU Budget is subject to an annual balanced budget rule. The EU sets a limit on revenues, then agrees spending each year to respect this limit.

Revenue (or 'Own Resources') for the EU Budget comes from four principal sources. 'Traditional' own resources are made up of the import tariffs associated with the Common Agricultural Policy and the Common Commercial Policy. These represent about 12% of total revenues (2002 figures). Most money is raised through revenues related to VAT (29% of the total in 2002) and GNI (59%). Thus a member state's total contributions to the EU Budget are broadly in proportion to the relative size of its economy. There is, however, a limit on the VAT contribution to ensure poor countries, with a higher share of Consumption in National Income, do not pay excessive sums under this own resource.

On the expenditure side there are many policies that attract EU spending, but the largest two by far, taking over 80% of total spending each year, are the Common Agricultural Policy (CAP) and Structural/Regional Policies. Thus, in terms of each country's net contribution to/from the EU Budget, broadly speaking 'size matters' for payments to the EU Budget, whereas economic structure (the size of the agricultural sector and level of economic development) are dominant in determining a member state's receipts from the Budget.

Before we look at the EU's budgetary processes, we need to explain one more feature of the EU Budget, the distinction between Compulsory Expenditures (CE) and Non-Compulsory Expenditures (NCE). CE are those expenditures for which an explicit commitment is made in the Treaty of Rome. CE is dominated by CAP income-support ('Guarantee') spending. The largest component of NCE is Regional Policy spending. A key feature of CE is that once the expenditure-generating policies are in place, the EU is committed to fulfilling all resulting claims on the budget. NCE, however, is more or less the exact reverse – total spending is agreed, then funds are allocated between competing claims. Thus total NCE is fixed in advance whilst the burden of CE is potentially open-ended.

The CE/NCE distinction is particularly important for the relative powers of the European institutions. The European Parliament has steadily gained more control over

[2] The EU is involved in other financial activities, for example borrowing through the European Investment Bank, but these lie outside the framework of the EU Budget and so are not considered here.

[3] It is common to refer to a figure of 1.24% of GNI (previously 1.27% of GNP). This is misleading, as it includes sums intended for spending in future years on multi-annual projects.

the execution of the EU Budget – and it has the greater say over NCE – but the Treaty of Rome has limited the annual growth rate of NCE. With CE – and CAP spending in particular – their powers are much less. The only way to influence CAP spending is to change the expenditure-inducing legislation (that is, to reform the CAP). Co-decision has not been extended to CAP market support policies and so the balance of power over the CAP and its spending remains firmly with the member states through the Council of Ministers. That said, the 1992 reform of the CAP had a profound impact on the evolution of CAP spending. To see why, consider the principal forms of CAP support and expenditure before and after the 1992 reform.

Before 1992, the main expenditures were associated with price support, the policy of maintaining prices for farm products within the EU at levels higher than elsewhere in the world. These high prices encouraged farmers to produce greater quantities until, for many products, the EU was producing more than it consumed. This drove up two types of spending. Because of the price gap, the EU had to pay exporters a subsidy to enable them to sell EU products on the world market. Second, because not all surplus production could be exported at once, much of it was initially put into store ('intervention'). Intervention is key to the evolution of budget spending on the CAP, because it ***guaranteed*** farmers a buyer for their produce, even if they could not sell it on the open market – so farmers kept on producing more. The nature of CE meant the EU had to meet all resulting costs – they could not stop buying into intervention just because costs rose. CAP support therefore drove up production, which increased surpluses and pushed up CAP spending.

The 1992 reform reduced support prices significantly, replacing them with direct payments. These payments have a fixed unit value but, crucially, they also have eligibility limits built into the legislation. For example, payments to livestock producers include a limit on the number of animals each farmer can claim for. For arable farmers, the per-hectare payment is derived from a fixed yield figure based, unchangingly, on yields during 1986-1990 (1995-1999 for the NMS). There is also a limit on the total area that payments can be claimed for. As a result, the total cost of direct payments is limited. Such CAP support is still 'Compulsory', but by building spending constraints into the legislation, significant future growth is likely only when new member states join the EU and become eligible for support.

3. BUDGET OUTCOMES FOR THE EU15: AN ANALYSIS OF KEY FEATURES

In this section we consider briefly the evolution of the EU Budget as a whole. We then analyse member states' shares of total budgetary flows – in which we observe remarkable stability, especially on the revenue side, but even in terms of expenditures. Institutional constraints and decision-making rules have contributed to this. As the EU Budget has grown and more policies given support, it is worth reiterating what has happened to spending on traditional policies like the CAP. Although recent reforms have changed the nature of support, the amount spent on the CAP has fallen only as a percentage of total EU spending, not in absolute terms.

Table 1 summarises, for selected years, aggregate EU budgetary transfers. Note that not all money passes through the member states. On the revenue side, money unspent one year can be carried over to the next[4]. This amount was unusually large in 2001, resulting in the smaller percentage of total revenue in 2002 collected

[4] Which is then no longer designated as having come from a particular member state.

from the member states. On the expenditure side a number of payments, notably assistance to third countries, are made directly to these countries rather than through individual member states.

Table 1: The EU Budget – A Summary (selected years), €million*

1	2	3	4	5	6	7
	Own Resources			**Expenditures**		
Year	**from member states**	**total**	**2%3**	**to member states**	**total**	**5%6**
1976	7710	7993	96	6579	7288	90
1980	15428	16066	96	14592	16289	90
1985	26081	28085	93	24664	28099	88
1990	41413	46469	89	36886	43325	85
1995	67828	75077	90	58248	66901	87
2002	77968	95434	81	72734	85145	81

Sources: EU Court of Auditors Annual Reports and European Commission Budgets Directorate General Annual Reports on Allocated Expenditure, Various Years.
Note: *Common unit of account, this being the €from 1999.

Because our analysis focuses on member states' shares of EU budget transfers, we are most concerned with transfers to/from individual member states. We show these in Table 2. The net transfer is shown as a negative for net contributors to the EU budget and a positive for net recipients. Whilst some countries have long been net contributors, changes on both sides of the budget have led to the situation where, of the EU15, only the four Cohesion Countries (Greece, Ireland, Portugal and Spain) remain as net beneficiaries.

In Tables 3 and 4 we present some simple statistics indicating the stability of EU budgetary transfers, using the means and coefficients of variation (CoV – standard deviation as a percentage of the mean) for member states' ***percentage shares*** of EU Budget transfers. As a simple measure of stability, we consider whether an individual sub-period mean spending share lies outside the full-period mean plus or minus one full-period standard deviation. In Table 3 we consider EU Budget revenues, where we disaggregate the full period first by EU enlargements (in 1981, 1986 and 1995) and second around 1988, when the EU agreed significant reforms to the budget process.

The general picture is one of stability of own resource shares, despite changes in the structure of own resources over time. Using our simple stability measure, there are nine outliers, although three observations are for the initial, transitional, period of new member states' membership, whilst the two for Luxembourg may simply be a small-number problem with the statistics. A comparison of the CoV data before and after the 1988 reform shows that for almost all countries the CoV fell. This is expected, *a priori*, because revenues from import tariffs fell (these varying with, *inter alia*, exchange rates and agricultural production), replaced with revenue from VAT and, increasingly, GNP, revenue sources that evolve much more slowly over time.[5]

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[5] Similar analyses for own resource contributions by type, in aggregate and disaggregated by source country (not reproduced here), confirm the picture of stability of member states' shares. There are, however, slightly more individual outliers, suggesting some smoothing across own resources.

Table 2 EU Budgetary Transfers by Member State, selected years, €million

	OR	exp	net	OR	exp	net	OR	exp	net	OR	exp	net	OR	exp	net
	Bel			**Dk**			**D**			**El**			**E**		
1976	498	386	-112	159	397	238	2108	1088	-1020						
1980	951	677	-273	346	680	334	4610	2940	-1670						
1985	1293	1070	-223	620	913	292	7504	4185	-3319	388	1703	1315			
1990	1764	990	-774	775	1198	423	10357	4807	-5550	564	3034	2470	3671	5383	1711
1995	2680	2369	-311	1295	1601	306	21324	7893	-13431	985	4474	3489	3645	10863	7218
2002	3018	1992	-1026	1688	1427	-261	17582	11532	-6050	1338	4673	3335	6551	15175	8624
	F			**Ire**			**It**			**Lux**			**NL**		
1976	1652	1548	-104	39	228	189	1317	1147	-170	12	9	-3	675	781	106
1980	2992	3372	380	139	827	687	1929	2611	681	20	15	-5	1273	1667	395
1985	5319	5416	97	296	1549	1252	3630	4480	851	51	9	-42	1889	2232	343
1990	8089	6285	-1805	368	2261	1892	6098	5681	-417	75	15	-60	2615	2984	368
1995	11877	10150	-1727	665	2552	1887	6414	5800	-614	168	123	-45	4350	2345	-2005
2002	14152	11771	-2381	1019	2563	1544	11279	8113	-3166	184	135	-49	4468	1539	-2929
	Pt			**UK**			**Aut**			**Fin**			**Swe**		
1976				1250	994	-256									
1980				3168	1803	-1365									
1985				5090	3107	-1983									
1990	503	1103	601	6534	3148	-3387									
1995	865	3246	2381	9252	4531	-4720	1763	858	-905	888	723	-165	1658	721	-937
2002	1187	3857	2669	10153	6021	-4132	1809	1537	-272	1185	1178	-7	2086	1222	-864

Sources: See Table 1

Notes: OR – own resources; exp – expenditures; net – expenditures-own resources.

Table 4 repeats the analysis for expenditures, except that the second disaggregation of data (in addition to the one by EU enlargement) splits the data in 1993, from which date the 1992 CAP reform was implemented. The results indicate some variability in the early years, but much greater stability subsequently – even with successive enlargements. Again, this is expected *a priori*. First, NCE has risen as a share of total EU spending. Second, the CAP (the largest spending policy), saw much price support spending replaced with (the more stable) direct payments after 1992. Table 5, focusing exclusively on CAP spending, confirms this.

Note that of eleven outliers, three each occur for Italy and the Netherlands, both of whom see spending shares decline substantially over time. A more disaggregated analysis of CAP spending, not presented here, indicates that Italy experiences a general decline in CAP receipts, but with no obvious cause. With the Netherlands, however, the fall in total CAP receipts arises principally from the 1984 reform of the dairy sector. As a result, their receipts by the late 1990s were about €1.5 billion per year lower than a decade earlier – from this sector alone.

Of particular interest are the figures for France and Ireland. Not only do these countries gain considerably from the CAP (France in total terms, Ireland in per capita terms) but Table 5 indicates they have managed to achieve a greater stability of spending shares over time. Indeed, they are the only countries for which the CoV declines in each sub-period prior to the 1992 CAP reform.[6] Table 5 shows that even if we halve the width of the band by which we define outliers, still neither country has a single outlier. This stability of shares of CAP spending, it should be reiterated, has been achieved even as the EU has expanded.

Table 3 Percentage Shares of Total Own Resources by Member State (means and coefficients of variation)

Means	Bel	Dk	D	El	E	F	Ire	It	Lux	NL	Pt	UK	Aut	Fin	Swe
1973-1980	**6.6***	1.9	28.4			21.2	**0.6***	15.8	**0.1***	**9.0***		16.2			
1981-1985	5.2	2.1	28.1	1.5		19.7	1.1	13.3	0.2	7.0		**21.8***			
1986-1994	4.3	2.1	28.2	1.4	7.5	19.9	0.9	14.8	0.2	6.5	1.2	13.0			
1995-2002	3.9	2.0	26.4	1.6	7.2	**17.3***	1.2	12.6	**0.2***	6.3	1.4	13.0	2.5	1.4	2.8
1973-1988	5.8	2.1	28.1	1.4	**6.1***	20.8	0.8	14.7	0.2	7.9	**0.9***	17.7			
1989-2002	4.0	2.0	27.4	1.5	7.6	18.1	1.0	13.7	0.2	6.3	1.4	12.7	2.5	1.4	2.8
1973-2002	5.0	2.0	27.8	1.5	7.4	19.5	0.9	14.3	0.2	7.2	1.3	15.3	2.5	1.4	2.8
CoV															
1973-1980	6.6	24.3	4.7			11.5	38.0	17.3	16.2	5.8		28.6			
1981-1985	4.8	8.8	2.5	13.7		2.3	11.9	7.1	16.1	2.9		7.6			
1986-1994	7.3	11.1	9.7	20.6	17.2	6.2	9.0	10.7	15.3	4.0	26.7	19.4			

[6] See Ackrill (forthcoming, 2005) for a full discussion of these and related results. We do not repeat this analysis for Regional Policy spending because of difficulties involved in creating a consistent data series, given the evolution of the policy and consequent changes in data provision and presentation.

1995-2002	4.6	5.7	11.1	5.4	13.6	3.6	16.9	12.8	13.3	4.8	7.8	15.4	5.9	5.5	7.1
1973-1988	16.1	18.1	4.2	23.3	18.1	8.9	36.5	15.6	18.5	14.5	8.4	25.3			
1989-2002	5.3	5.4	11.5	8.9	12.7	6.4	20.4	15.3	16.3	4.2	14.1	17.7	5.9	5.5	7.1
1973-2002	22.8	13.9	8.3	15.1	15.4	10.4	31.2	15.6	23.9	16.4	19.8	28.4	5.9	5.5	7.1
Bands ± one s.d.															
upper	6.1	2.3	30.1	1.7	8.5	21.6	1.2	16.5	0.2	8.4	1.6	19.7	2.7	1.5	3.0
lower	3.8	1.7	25.4	1.3	6.2	17.5	0.6	12.0	0.2	6.0	1.1	11.0	2.4	1.3	2.6

Sources: Court of Auditors Annual Reports and Annual Reports on Allocated Operating Expenditure; own calculations.

Note: * - outlier, as defined in the text. The outliers are determined by reference to the exact values of the numbers. In rounding to one decimal place some outliers may not, in this table, appear so to be.

Table 4 Percentage Shares of Total Spending by Member State (means and coefficients of variation)

Means	Bel	Dk	D	El	E	F	Ire	It	Lux	NL	Pt	UK	Aut	Fin	Swe
1976-1980	**5.8***	**5.6***	**20.2***			20.5	4.8	17.2	0.1	**11.4***		14.4			
1981-1985	3.7	3.7	16.3	**5.4***		20.2	5.1	**18.7***	0.0	8.7		**18.1***			
1986-1994	3.7	3.2	14.1	7.5	12.0	18.6	5.0	15.1	0.3	7.6	3.8	9.2			
1995-2002	2.8	2.2	14.4	7.6	17.7	17.1	4.1	**12.0***	0.2	**2.9***	5.2	9.0	1.9	1.5	1.6
1976-1992	4.2	4.1	16.6	6.3	11.3	19.7	5.0	17.1	0.1	9.4	3.2	13.4			
1993-2002	3.2	2.3	14.2	7.9	17.0	17.3	4.2	**12.1***	0.3	**3.3***	5.3	8.9	1.9	1.5	1.6
1976-2002	3.8	3.4	15.7	7.0	14.7	18.8	4.7	15.2	0.2	7.1	4.4	11.7	1.9	1.5	1.6
CoV															
1976-1980	12.1	10.1	16.8			15.4	23.2	7.4	37.2	5.2		19.8			
1981-1985	10.1	8.3	8.5	31.1		9.4	13.1	6.7	29.3	3.3		19.7			
1986-1994	31.9	16.0	8.4	17.6	26.3	10.6	12.0	15.1	108.1	34.5	43.8	11.9			
1995-2002	18.7	12.0	5.0	8.1	11.9	4.2	12.7	11.7	18.5	21.4	10.2	11.1	14.2	14.0	11.5
1976-1992	32.0	27.0	19.2	24.7	28.8	12.5	15.5	10.0	130.7	21.2	43.2	33.8			
1993-2002	26.7	14.7	6.2	10.4	13.4	5.0	13.5	14.6	87.5	27.6	10.2	11.3	14.2	14.0	11.5
1976-2002	33.3	36.4	17.9	20.9	26.8	12.3	17.0	19.6	112.5	48.3	31.9	35.9	14.2	14.0	11.5
Bands ± one s.d.															
upper	5.1	4.7	18.6	8.5	18.6	21.1	5.5	18.2	0.4	10.6	5.9	16.0	2.2	1.7	1.8
lower	2.5	2.2	12.9	5.6	10.7	16.5	3.9	12.2	0.0	3.7	3.0	7.5	1.6	1.3	1.4

Sources and Note: See Table 3.

Table 5: Percentage Shares of CAP Guarantee Spending by Member State (means and coefficients of variation)

mean	Bel	Dk	D	El	E	F	Ire	It	Lux	NL	Pt	UK	Aut	Fin	Swe
1976-1980	**6.1***	**6.3***	**20.6***			21.8	4.6	16.0	**0.2***	**12.7***		**11.7**+			
1981-1985	4.2	4.5	18.2	**4.9***		23.3	4.5	**19.2***	**0.0**+	**10.8**+		10.4			
1986-1994	3.6	4.2	16.2	6.9	**8.2**+	22.3	4.7	15.4	**0.0**+	9.8	**1.0**+	**7.7**+			
1995-2002	**2.7**+	**3.2***	**14.8**+	6.6	**13.0**+	23.2	4.2	**11.8***	0.1	**3.7***	**1.8**+	9.8	2.2	1.5	1.7
1976-1992	4.5	**4.9**+	18.2	5.9	**6.9**+	22.3	4.7	**17.1**+	0.1	**11.4**+	**0.8***	9.6			
1993-2002	**2.9**+	**3.3**+	**14.8**+	6.9	**12.9**+	23.3	4.3	**11.8***	0.1	**4.2***	**1.8**+	9.5	2.2	1.5	1.7
1976-2002	3.9	4.3	16.9	6.3	10.4	22.7	4.5	15.1	0.1	8.7	1.3	9.6	2.2	1.5	1.7
CoV															
1976-1980	12.7	9.1	17.6			18.2	26.4	14.1	39.1	7.3		29.8			
1981-1985	9.2	5.3	6.2	41.7		12.1	18.9	8.7	27.3	3.8		7.4			
1986-1994	22.1	9.3	10.7	14.9	50.9	9.7	15.7	15.6	76.6	32.7	59.1	9.6			
1995-2002	31.3	13.7	4.8	5.6	11.1	4.1	8.4	10.0	26.2	25.9	11.4	9.2	38.7	38.4	35.7
1976-1992	28.6	19.9	15.3	28.1	54.9	13.0	19.7	12.7	126.4	17.8	49.9	27.2			
1993-2002	29.3	14.4	4.9	9.9	10.1	3.8	8.1	11.3	36.1	32.7	14.0	10.8	38.7	38.4	35.7
1976-2002	35.5	26.3	16.5	21.7	38.0	10.5	16.9	21.0	103.9	45.3	43.7	22.4	38.7	38.4	35.7
Bands +/- one s.d.															
upper	5.3	5.5	19.7	7.7	14.4	25.0	5.3	18.3	0.1	12.7	1.9	11.7	3.0	2.0	2.2
lower	2.5	3.2	14.1	5.0	6.5	20.3	3.8	11.9	0.0	4.8	0.8	7.4	1.3	0.9	1.1
+/- 0.5 s.d.															
upper	4.6	4.9	18.3	7.0	12.4	23.8	4.9	16.7	0.1	10.7	1.6	10.6	2.6	1.8	1.9
lower	3.2	3.8	15.5	5.6	8.5	21.5	4.1	13.5	0.0	6.8	1.1	8.5	1.7	1.2	1.4

Sources and Note: See Table 3 and Ackrill (2005, forthcoming). Also, *=outliers greater than the full-period mean +/- one full period standard deviation, +=outliers greater than +/- one-half of the full period standard deviation.

In conclusion, the analysis in this section has demonstrated that member states' shares of transfers to and from the EU Budget have been stable over time, for some countries even as the EU has enlarged. The EU's decision-making processes, the nature of Non-Compulsory Expenditures and recent CAP reforms have all played a role in this. Crucially, for the EU Budget generally and the CAP in particular, the greatest budgetary power has remained with the member states, through the Council of Ministers.[7] Given collective decision-making in a zero-sum budget game, countries cannot all achieve maximum returns from the EU budget. For a given distribution of budget spending *ab initio*, however, they are able to take decisions that preserve

[7] Recently through the European Council as well.

spending shares. What, though, does all this imply for the NMS and Romania? These questions are dealt with in the next two sections.

4. THE BUDGET OUTCOME FOR THE NEW MEMBER STATES

We begin this section by looking at the amounts laid down for spending in the NMS. These were first set out in the Financial Perspective agreed in 1999. The presentation of the tables by the EU is complicated by mixing payment appropriations (sums available for spending in any particular year) with commitment appropriations (sums available for spending in the current year plus agreed future spending on multi-annual projects). Table 6 shows elements of the Financial Perspective. Parts A and B present spending in the EU15 and EU21 as agreed in 1999 (when only six new member states were expected to join – and in 2002). Part C shows the revised Budget from May 2003, for an EU25 with enlargement in 2004. From Table 6, some interesting points emerge:

Pre-Accession Aid

The sums assigned for assistance prior to joining the EU remain unchanged between the 1999 agreement (Parts A/B) and the 2003 revision (Part C) – €3.12 billion each year. Since the 1999 figures assumed an accession of six countries, this implies more money is now available for Romania, given that as of May 2003 the list of post-2004 applicants was three (Romania, Bulgaria and Turkey), not seven.

Total Spending From 2004 in an Enlarged EU

Even though the 2004 enlargement brought in four more countries than was planned for in the 1999 Financial Perspective, total EU spending from 2004, as set out in the revised 2003 Financial perspective, remained unaltered.[8] This is a key point that we shall return to later.

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[8] The EU tends to use the terms 'Payment Appropriations' and 'Appropriations for Payment' interchangeably.

Table 6: Selected Elements of the Financial Perspective, 2000-2006, €mn, 1999 prices (commitment appropriations unless otherwise stated)

Part A: EU15 (Berlin Summit Agreement, March 1999)							
Item	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Agriculture	40920	42800	43900	43770	42760	41930	41660
- CAP guarantees	36620	38480	39570	39430	38410	37570	37290
- rural development, other measures	4300	4320	4330	4340	4350	4360	4370
Structural Operations	32045	31455	30865	30285	29595	29595	29170
Pre-Accession Aid	3120	3120	3120	3120	3120	3120	3120
- Agriculture	520	520	520	520	520	520	520
- pre-accession structural instruments	1040	1040	1040	1040	1040	1040	1040
- PHARE (applicant countries)	1560	1560	1560	1560	1560	1560	1560
Total Commitment Appropriations	92025	93475	93955	93215	91735	91125	90660
Total Payment Appropriations	89600	91110	94220	94880	91910	90160	89620
Available for Accession (Payment Approp'ns)			4140	6710	8890	11440	14220
- Agriculture			1600	2030	2450	2930	3400
- Other Expenditure			2540	4680	6440	8510	10820
Ceiling on Payment Appropriations	89600	91110	98360	101590	100800	101600	103840
- as %GNP	1.13	1.12	1.18	1.19	1.15	1.13	1.13
Part B: EU21, 2002 Accession (Berlin Summit Agreement, March 1999)							
Item	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Agriculture	40920	42800	43900	43770	42760	41930	41660
- CAP guarantees	36620	38480	39570	39430	38410	37570	37290
- rural development, other measures	4300	4320	4330	4340	4350	4360	4370
Structural Operations	32045	31455	30865	30285	29595	29595	29170
Pre-Accession Aid	3120	3120	3120	3120	3120	3120	3120
- Agriculture	520	520	520	520	520	520	520
- pre-accession structural instruments	1040	1040	1040	1040	1040	1040	1040
- PHARE (applicant countries)	1560	1560	1560	1560	1560	1560	1560
Enlargement			6450	9030	11610	14200	16780
- Agriculture			1600	2030	2450	2930	3400
- Structural Operations			3750	5830	7920	10000	12080
- Internal Policies			730	760	790	820	850
- Administration			370	410	450	450	450
Total Commitment Appropriations	92025	93475	100405	102245	103345	105325	107440
Total Payment Appropriations	89600	91110	98360	101590	100800	101600	103840
- of which, enlargement			4140	6710	8890	11440	14220
Part C: EU25, 2004 Accession (Agreed May 2003)							
Item	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Agriculture	40920	42800	43900	43770	44657	45677	45807
- CAP guarantees	36620	38480	39570	39430	38737	39602	39612
- rural development, other measures	4300	4320	4330	4340	5920	6075	6195
Structural Operations	32045	31455	30865	30285	35665	36502	37940
Pre-Accession Aid	3120	3120	3120	3120	3120	3120	3120
- Agriculture	520	520	520	520			
- pre-accession structural instruments	1040	1040	1040	1040			
- PHARE (applicant countries)	1560	1560	1560	1560			
Compensation					1273	1173	940
Total Appropriations for Commitments	92025	93475	93955	93215	102985	105128	106741
Total Appropriations for Payment	89600	91110	94220	94880	100800	101600	103840
Ceiling, Appropriations for Payment, %GNI	1.07	1.08	1.11	1.1	1.08	1.06	1.06

Sources: Parts A and B – "European Parliament, Council, Commission. Interinstitutional Agreement on Budgetary Discipline and Improvement of the Budgetary Procedure". Official Journal of the European Communities C172, 18.6.1999, pp. 1-22. Part C – "Decision of the European Parliament and of the Council of 19 May 2003 on the adjustment of the Financial Perspective for Enlargement." Official Journal of the European Communities L147, 14.6.2003, pp. 25-30.

The Allocation of Spending, by Policy, in the New Member States

Given the refusal of the EU15 to raise total spending for an expanded enlargement, we look now to see if any change was agreed to the distribution of planned spending by policy area.

Agriculture

At the 1999 Berlin Summit, as well as agreeing the Financial Perspective summarised in Parts A and B of Table 6, a reform of the CAP was agreed, notionally to prepare it for enlargement within the spending limits. A major issue of contention emerged early on – would the EU extend to the NMS all instruments of CAP support, in particular direct payments? EU public statements showed indecision on this. Two of the most common arguments against extending direct payments were that such levels of transfer would inhibit farm re-structuring and that since these farmers did not face the original price cuts (accession would see many prices rise) there could be no logic in giving them compensation payments.

Paradoxically this second argument was undermined by the 1999 CAP reform. The 1999 reform continued the 1992 process of reducing price support levels and raising direct payment levels, but in 1999 the rise in direct payments only covered half the price cut. Further, all support instruments other than direct income support were grouped into a new Rural Development policy (or Pillar II of the CAP). Countries could then re-cycle some Guarantee (Pillar I) money into Pillar II policies. These changes weakened the direct link between price cuts and direct payments, the latter no longer being specific compensation for specific price cuts.

Thus, after the 1999 reform, it was agreed that direct payments would be granted to farmers in the NMS. Indeed, negotiating accession on any other basis would have been impossible. The situation would have arisen that the CAP would be granting substantial aid to farmers in richer countries but not to farmers in poorer countries, whilst the latter would still be subject to many constraints under the CAP, notably production quotas and set aside.

Crucial issues still had to be discussed, however, most notably how the payments would be made to the NMS but the Financial Perspective still respected. The eventual solution was to phase-in the direct payments over ten years. Starting at 25%, they would be gradually increased until, in 2013, they would be made at 100% "of the levels then applicable" – a wording that leaves open the possibility of further reform between now and then.[9] Some countries, notably Poland, had demanded an initial payment level of 40% and a shorter transition period, but ultimately the EU15 position prevailed.

The impact of this on projected CAP spending in the NMS is summarised in Table 7. Note that the revised 2003 Financial Perspective (as summarised in Part C of Table 6) does not break down Pillar II spending between Commitment and Payment Appropriations. Note also that the 1999 Financial Perspective shows the same sums projected for CAP (Pillar II) spending under both CA and PA. These data reveal some interesting developments. First, the phasing-in of direct payments has resulted in a re-

[9] The meaning of '25%' and '100%' needs clarifying. Actual payment levels vary between countries because of different historical yields. '25%' does not refer to one-quarter of the value of the 'EU15' payment, because each country's payment is different, but to one-quarter of the full (100%) value of each country's payment, calculated using the EU–wide methodology.

scheduling of spending. The bottom line even suggests that Pillar II spending will be phased-in. Recall also that with accession occurring only on 1 May 2004, the 2004 totals only cover eight months-worth of spending. In addition, compared with the 1999 Financial Perspective, the 2003 agreement raised the sums to be spent on the CAP over 2004-2006. Payment Appropriations are increased by €526 million, with Commitment Appropriations raised by about €1 billion (within the unchanged overall limit for ***total*** PA).

The decision to phase in CAP direct payments also requires us to comment upon the spending element 'Compensation' (near the bottom of Table 6). This decision created the unfortunate situation that some of the NMS will initially be net contributors to the EU Budget, given that they must make revenue contributions in full *ab initio*. As a result, the EU will pay compensation during the first three years of membership. Moreover, the figures finally agreed in May 2003 were €100 million higher than those originally approved at the Copenhagen Summit in December 2002, when the accession negotiations were concluded. What is interesting is that despite the modest sum involved, the money has been taken from planned structural spending in the NMS, an area of particular need in these rather poorer countries.

Table 7 The Evolution of Planned CAP Spending in the New Member States, €mn, 1999 prices

Item	CA/PA/NDA	1999/2003	2004	2005	2006	Total
Total Agriculture	CA & PA	1999	2450	2930	3400	8780
Total Agriculture	CA	2003	1897	3747	4147	9791
Total Agriculture	PA	2003	911	3248	4095	8254
CAP Guarantees	NDA	2003	327	2032	2322	4681
Rural Development	CA	2003	1570	1715	1825	5110
Rural Development	PA	2003	584	1216	1773	3573

Sources: Table 6; Disaggregated data for 'CAP Guarantees' and 'Rural Development PA', from the EU Budget Website:
http://europa.eu.int/comm/budget/pdf/financialfrwk/copenhagen_package/webtablesEN.pdf
Notes: CA – Commitment Appropriations; PA – Payment Appropriations; NDA – Non-Differentiated Appropriations.

The foregoing discussion allows us to draw a number of conclusions that both illuminate the way in which the politics and processes of the EU Budget impacted on the accession negotiations and also help us understand the situation faced by Romania. The first point to note is that, as intended in 1988, the member states have shown a strong commitment to the spending limits set out in successive Financial Perspectives. The 2004 enlargement showed that total spending as laid down in the 1999 Perspective was inviolable, even with a larger than planned accession.

This increasingly effective budget discipline is widely seen as a positive development in the management of EU finances (see, *inter alia*, Ackrill 2000). The discussion in this paper, however, suggests problems as well. The EU15 have defended their spending shares, through the interaction of member states via policy reform negotiations. For non-compulsory expenditures the main element, Regional Policy, had seen spending rise significantly since 1988, in relative and absolute terms. This ended in 1999, with a limit on transfers to any member state set at 4% of its GDP. For the first time, EU regional policy had to adapt to spending limits, rather than enjoying ever-higher spending, agreed in pursuit of wider EU policy goals. The negotiations for the 2004 enlargement have advanced still further the financial constraints faced by structural spending.

In order to grant support to the NMS and keep total spending within overall limits, structural spending in the EU15 has come under threat. Spain in particular has vehemently opposed any reduction in its considerable financial advantage – currently about one third of EU structural spending and one-fifth of total EU spending. At least principles such as the 4% rule are common to all member states. The same cannot be said for the most expensive policy of all, the CAP. This policy has undergone huge change in the last decade, with the basis of support changed and Rural Development policies introduced, yet spending on the policy has fallen only as a percentage of total EU spending, not in absolute terms. Indeed, national co-financing of Pillar II measures mean the total cost of CAP policies has risen, albeit with the burden now shared between the EU and national budgets.

For some countries, there was a wider agenda lying behind the wish to grant lower direct payments to the NMS. The UK and Sweden, for example, wanted to give the NMS less, not for discriminatory reasons but because they believed (mistakenly), that in order to maintain a ***Common*** Agricultural Policy, and ensure the EU25 spending limit was respected, a reform would have to be agreed that saw lower payments to the EU15 also. The final agreement ultimately showed how far some countries were prepared to go to defend their spending shares – even willing to sacrifice commonality of support under the CAP, this supposed 'cornerstone' of European integration, to achieve this. Put cynically, the goals for fiscal discipline set by the EU15 in the 1999 Financial Perspective then had to be met by the NMS.

A further feature of the final accession agreement was a deal whereby, for the first three years of membership, the NMS could use some of their Pillar II money to top-up direct income payments. The amount is, however, limited to 20% of Pillar II funds and must be co-funded by the member state. From 2007, all top-up money must come from national sources. This raises questions about the ability of the NMS to fund this, although see Hallet (2004) for a positive assessment of this particular issue.

Given the political sensitivity of EU spending across the member states it came as no surprise when, in proposing further reforms for the CAP (agreed in 2003), Commissioner Fischler made specific reference to the impact of the reforms on the budget. Even though this reform was seen by many as the most radical ever (by aiming to break more fully than in 1992 the link between support received by farmers and current production levels), the proposals were drawn up merely "with a view to achieving the objective of *stabilising* agricultural expenditure in *real terms*" (European Commission, 2002: 29 – emphasis added). Furthermore, although funds can be re-cycled from Pillar I to Pillar II across the CAP as a whole, a minimum of 80% of re-cycled money must remain in the 'home' country, minimising the redistribution of CAP funds between countries. It appears that, in order to stand a chance of getting agreement on CAP reform, the member states must first receive a guarantee that their budgetary gains from the policy will not be eroded by the reform.

5. ROMANIA AND THE EU BUDGET: PROCESS AND OUTCOME

The foregoing discussion raises a series of issues that can inform a considered assessment of Romania's experiences with the EU Budget process. One point that can be made, given the foregoing discussion, is that whatever is agreed, Romania will find it extremely difficult subsequently to negotiate a higher budget share. Below, we estimate likely parameters within which a budget deal for Romania could lie, given the agreement reached with the three biggest NMS – the Czech Republic, Hungary and Poland.

The approach taken in this analysis is very simple and mechanistic. We justify this by arguing that a key consequence of the foregoing analysis is that the allocation of budget shares to NMS – and even to the EU15 – is based not so much on policy need as on securing a share of limited funds. This allocation is determined with reference to policy-related variables (rather than specific policy instruments), within tight process-driven restraints, especially the primacy of overall spending limits, expressed through the Financial Perspective. Moreover, we note not only the direct control exerted over Non-Compulsory Expenditures, but recent CAP reforms that have imposed comparable constraints on this largest Compulsory Expenditure as well. Thus we consider spending in the Czech Republic, Hungary and Poland by reference to the relative values of various economic indicators. From this, we derive 'high' and 'low' estimates of possible budget transfers to Romania. All estimates refer to Payment Appropriations:

CAP

We estimate a single figure, making no distinction between income support and Rural Development expenditures. We find that, in the NMS8, there is a very close correlation with the variable 'utilised agricultural area' (UAA) – except for Slovenia, for which special arrangements were agreed. This correlation is reasonable, *a priori*, on two grounds. First, the largest single element of income support is direct payments, in particular the *area-based* support for the arable sector. Second, given the low level of economic development and the need for support across the whole rural economy, total agricultural area would be a reasonable proxy for a country's need for Rural Development assistance. We use 2001 data for UAA published by the European Commission and base our estimate of spending in Romania on projected CAP transfers and UAA data in the Czech Republic, Hungary and Poland (NMS3) for 2004-2006. We express UAA in Romania as a ratio relative to UAA in these three countries, then apply that ratio to planned CAP spending in the NMS3. This produces a series of estimates for CAP spending in Romania for 2007-2009, across which the range from highest to lowest is no more than about 10%, with a gap of 6% in 2009.

Regional Policy (RP)

Population shares prove to have a very close correlation with projected regional policy support spending in the NMS8, with the exception of the Czech Republic. Note that throughout the NMS, only the Prague region in the Czech Republic and Bratislava region in Slovakia are not classified as Objective 1. Overall, for most countries, total population is thus a reasonable proxy for RP spending eligibility (within which, Objective 1 spending is the largest single element). Given the Czech Republic is something of an outlier in this regard, we use the same approach as for CAP spending, but just consider data for Hungary and Poland for 2004-2006. Our higher and lower estimates are again spread by no more than about 10%, falling in 2009 to 8.5%.

Other Spending

We estimate the balance on total spending as total Payment Appropriations minus CAP spending minus regional policy spending, excluding the temporary compensation payments. We estimate 'other spending' as a residual rather than by

direct calculation because of the presence of tight budgetary constraints and an inflexible negotiation process. This means, for example, an increase in CAP spending will see 'other' spending fall in order to respect any explicit or notional spending limit. We then produce a matrix of estimates for possible spending in Romania, based on our earlier 'high' and 'low' estimates of CAP and RP spending. The results of this simple exercise are summarised in Table 8.

Table 8 Estimates of EU Spending in Romania, €million, Payment Appropriations

Item	Range	2007	2008	2009	2007 (12 mth)
CAP	high	348	1385	1680	522
	low	317	1234	1579	476
RP	high	491	1014	1203	736
	low	449	941	1125	674
Other	high	184	288	375	277
	low	146	239	324	218
Total	high	1023	2686	3257	1535
	low	912	2415	3029	1368

Sources: European Commission website (see Table 7); agricultural area data from European Commission; population data from Eurostat; own calculations.

These results are only indicative estimates, underpinned by a series of important assumptions. First and foremost, we have assumed the general basis upon which spending in the NMS8 has been determined will apply equally to Romania. For regional policy, our estimates are considerably below the 4% threshold for GDP (calculated using Eurostat GDP estimates for 2004 and 2005 and assuming the growth rate between these two years is sustained into the future). Regional policy spending may therefore be raised above the levels shown here. Our approach assumes the direct payments under the CAP are phased in according to the same schedule as in the new member states, thus the pattern for Romania in the period 2007 to 2009 mirrors that in the NMS from 2004 to 2006. The estimate of spending in 2007 is based on an eight-month figure for 2004 spending in the NMS: the last column of Table 8 adjusts this figure for a full twelve months. Finally, the bottom line (literally) of Table 8 shows that annual gross transfers are going to be quite significant, possibly rising as high as 4-5% of GDP, although the net transfer after own resource contributions will be about one percentage point lower.

6. CONCLUSIONS

Membership of the European Union will bring much to Romania, both political and economic, hopefully mainly positive. In this paper we have looked at just one element – possible gains for Romania from the EU budget, but we have considered this from a particular point of view. We have argued that EU budgetary processes and constraints are such that member states' shares of EU Budget transfers tend to be very stable. Recent accession negotiations, especially over the CAP, have shown the lengths the EU15 will go to, to defend their budget shares. For a new member state, this is important because it suggests not only that there is very little flexibility in the pre-accession budget negotiations, it also implies that once a member, a country will find it extremely difficult to negotiate higher transfers. Put crudely, what you get on entry is what you are then stuck with.

One of the main conclusions from the earlier sections of the paper, that justified our fairly simple approach to estimating possible budget transfers to Romania, was an increasingly mechanistic approach to the EU Budget and national budget shares. The evidence shows that the EU15 countries have successfully created and defended a certain pattern of budgetary transfers that enlargement, even one on the scale of 2004, will not be allowed to disrupt. Even the ***Common*** Agricultural Policy, described as a 'cornerstone' of European integration, is being implemented differentially in the EU15 and the NMS in order to ensure existing gains to the EU15 are retained within the strict spending limit laid they down in the 1999 Financial Perspective.

The transfers likely to be made available to Romania will be substantial. That said, given the extraordinary political sensitivity surrounding the EU budget and its distribution across the EU member states, each applicant has more or less been presented with a take-it-or-leave-it offer on budget transfers. Ever-diminishing flexibility in budgetary processes mean little scope for applicants to raise by any significant amount the sums on offer; nor is there much likelihood of countries raising their shares in future Financial Perspectives. Nominal amounts may go up, but whatever share of EU spending Romania gets from 2007, that – more or less – is that.

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