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The EU's Regional Policy and its extension to the new members

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Introduction

All candidate countries from Central and Eastern Europe will be new members with a per capita GDP below the EU average and even below the least developed present member states. However, GDP per capita at purchasing power parity of some candidate countries is close to that of some member states (Slovenia 68 per cent, Czech Republic 63 per cent of the EU average)[1]. The number of applicant countries and the differences between them are greater than ever before, and they will all be net recipients of the common budget. European solidarity will become more important than ever in achieving the major goal of reducing disparities in levels of development explicitly set by Article 130a.

The new members would like to get access to the Structural Funds as a major instrument in supporting their modernisation process. Although future resource transfer is not the only reason for becoming a full member of the EU, this field plays a very important role for the Central and Eastern European countries (CEECs). There is no doubt that it is of utmost importance for the historically undercapitalised candidate countries to accelerate their modernisation process, among others, also by having access to EU funds.

1 See Annex.

This paper will focus on the preparation of the European Union for Eastern enlargement in a budgetary sense. It will deal with the role of regional development subsidies within the Union and look through the gradual development of the common regional policy and its reforms. It will provide a critical survey of the Agenda 2000 and discuss decisions of the Berlin European Council on the future of structural funds, with special regard to the financing of enlargement.

1. Importance of regional development policy

There are wide disparities in living standards and levels of economic development even within the existing EU of fifteen member states. Regions with a high per capita income contrast with economically backward regions. These backward regions tend to lie on the periphery and are often characterised by low standards of public services and communications. The disparities are most evident in income: the GDP per capita of the 10 most affluent regions is approximately 4.5 times that of the 10 least affluent regions.[2]

An effective regional policy is crucial to the development of an integrated EU. If the EU does not have a commitment to reducing 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. The most important argument in favour of an EU policy is the necessity to have an active device by which the welfare benefits of economic integration are spread throughout the European Union. There is no guarantee that this will occur if market forces are allowed to operate freely. Evidence would suggest that the opposite effect might result and that development would become even more concentrated in the centre of the EU.

2 Committee of the Regions, Reform of the Structural Funds. The contribution of the Committee of the Regions to the construction of Europe, Brussels, March 1998, p. 11.

It is, however, unrealistic to attempt to equalise all conditions throughout the EU, which are the result of different resource endowments and historical factors. The measures adopted by the EU in the form of regional policy are not intended to do that. The objective is to achieve economic and social cohesion. This is defined in unique terms within the Treaty on European Union "...as reducing disparities between the various regions ... (TEU Art 130a) in order to promote economic and social progress" (TEU Art B). In order to achieve these objectives, financial assistance is made available, through Structural Funds, for regions in need. The Structural Funds aim to promote a better economic and social balance across the European Union and to reduce regional disparities by co-financing with member states development actions in their regions.

2. Historical background: the creation of a common regional policy

The original version of the Treaty of Rome made no mention of Structural Funds or of a community regional policy. It was not until the community was faced with its first enlargement and the economic crises of the 1970s that its attention was seriously turned to the problems facing the regions and proposals were put forward for developing a policy towards them. However, the Treaty of Rome did make provision for the establishment of two funds which now form part of the so-called Structural Funds and assist in implementing the EU's regional policy.

2.1 The Structural Funds

The first Structural Fund is the European Social Fund (ESF), as provided for in Articles 123-126.[3] This was set up in 1960 with the aim of promoting employment and increasing the geographical and occupational mobility of workers within the Union. The ESF concentrates its efforts on retraining

3 See Church, C. H./Phinnemore, D.: European Union and European Community. A Handbook and Commentary on the post-Maastricht Treaties, Harvester Wheatsheaf, 1994, pp. 194-195.

redundant workers and promoting vocational skills for young people. At the same time, the Fund devotes resources to opening up job opportunities for women and the disabled.

The second Structural Fund, set up in line with provisions laid down in the Treaty of Rome, is the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF). This was eventually set up in 1970, in accordance with Article 40(4),[4] once the EU's common agricultural policy was in operation. Its essential task was and remains the modernisation and rationalisation of agricultural production methods.

Although the activities of both the ESF and the Guidance Section of the EAGGF have gradually developed a clear emphasis on promoting assistance to the less developed areas of the EU, it was not until 1975 that a fund was created with the specific aim of reducing the economic and social disparities between various regions of the EU. This fund, the European Regional Development Fund (ERDF), did not emerge out of the Treaty of Rome. Instead, in response to the economic difficulties being experienced in the 1970s and in an attempt to provide some form of assistance to the declining industrial regions of the United Kingdom, the Community made use of the catch-all Article 235[5] to establish the fund in order to redistribute aid to its struggling and less developed regions.

The primary aim of the ERDF, as now laid down in Article 130c of the amended Treaty of Rome, is to help redress the principal regional imbalances in the Community.[6] Programmes co-financed by the ERDF are aimed at improving industrial infrastructure and promoting job creation.

4 Church, C. H./Phinnemore, D.: European Union., p. 98.

5 "If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provide the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, take the appropriate measures." Article 235, Treaty of Rome, in Church, C. H./ Phinnemore, D.: European Union and European Community, p. 340.

6 "The European Regional Development Fund is intended to help to redress the main regional imbalances in the Community through participation in the development and structural adjustments of regions whose development is lagging behind and in the conversion of declining industrial regions." Article 130c, Treaty of Rome, in: Church, C. H/ Phinnemore, D.: European Union and European Community, p. 220.

While the establishment of the ERDF essentially heralded the emergence of an EU regional policy, it was not until after the second and third enlargements of the EU in 1981 and 1986 respectively, and the adoption of the internal market programme as part of the Single European Act (SEA), that regional policy was given a high profile among the activities of the Union. Indeed, not only was the ERDF formally recognised by the SEA through the insertion of Articles 130b-130e into the Treaty of Rome, but the aim of increasing economic and social cohesion within the EU as a counter to the possible economic implications of the internal market on the more remote and less developed regions was firmly established as a policy objective of the EU.

2.2 The first comprehensive reforms

The European Commission was required under the SEA to present an appropriate comprehensive proposal. In 1988, the Council approved this reform of the Structural Funds, including the formulation of specific regional policy objectives.[7] It was decided to reform the funds so that instead of each having its own rules and objectives they would be based on four shared principles:

- concentration (involving the collective use of the funds in areas of greatest needs);
- programming (mostly based on medium-term programmes for regional development, rather than projects);
- partnership (preparation, decision-making, and implementation of programmes to be a shared responsibility between the Commission, national governments, and sub-national bodies);
- additional programmes (to be co-financed by the EU and appropriate national bodies).

7 Council Regulation (EEC) No. 2052/88, Official Journal of the European Communities, No. L 185, Volume 15, July 1988, Council Regulation (EEC) No. 4253/88, No. 4254/88, No. 4255/88, No. 4256/88, Official Journal of the European Communities, No. L 374, 31 December 1988.

The 1988 reform established five priority objectives for the Structural Funds. Objective 1, 2 and 5b were specifically regional in nature; they involved measures restricted to certain eligible regions. The definition of eligible regions under the reform was based on a typological approach. Three types of eligible regions were defined which the EU adopted as "objectives" of policy under the Structural Funds. The first of these objectives, objective 1, aimed at promoting development and structural adjustment in regions which were lagging behind, defined as those with GDP per capita below 75 per cent of the EU average. The second objective, objective 2, aimed at promoting the conversion of areas affected by industrial decline. The key defining characteristic of these areas is their relatively high unemployment rate. The third objective, objective 5b, is aimed at rural areas affected by problems of structural adjustment linked to the decline of agriculture. Objective 3 (combating long-term unemployment), objective 4 (occupational integration of young people) and objective 5a (development of rural areas) covered the whole of the EU.

In the light of experience gained thereafter, the provisions were again reformed in July of 1993[8] and a fourth structural fund, the Financial Instrument for Fisheries Guidance (FIFG), was created for fisheries policy[9]. The revised Regulation did not amend the definition of objectives 1 and 2. The new objective 3 combined the tasks of the original objectives 3 and 4. The new objective 4 was to facilitate workers' adaptation to industrial changes and to changes in production systems. Objective 5a maintained its initial goal of spending up the adjustment of agricultural structures, but it also included aid for modernising and restructuring fisheries. Since 1995, a new objective 6 has been established for regions with outstandingly low population density (below 8 inhabitants per square kilometre).[10]

8 Council Regulation (EEC) No 2081/93, No 2082/93, No 2083/93, No 2084/93, No 2085/93, Official Journal of the European Communities, L 193, Volume 36, 31 July 1993, pp. 5-47.

9 Council Regulation (EEC) No 2080/93, Official Journal of the European Communities, L 193, Volume 36, 31 July 1993, pp. 1-4.

10 Decision of the Council of the European Union (95/1/EC, Euratom, ECSC), Official Journal of the European Communities, L 1, Volume 38, 1 January 1995, p. 11.

Under the Treaty on European Union, the regions gained a further boost in that provision was made for the establishment of the Cohesion Fund (Article 130d). By providing subsidies for transport and environmental projects it was not intended to boost regional development and enhance links between the periphery and the centre.

The nature and distribution of the support has become a politically sensitive issue within the EU. For some states, in which the poorest regions are located, payments have come to be considered as the means for ensuring their national government's support for potentially damaging EU actions. For other states, which are net contributors to the EU budget, payments from the Structural Funds are seen as a way of "clawing back" some of those contributions.

Despite a significant increase in the levels of funding available since 1994, the steps being taken by the EU to achieve economic and social cohesion are still very cautious. Overall levels of funding for regional development remain low in comparison with the levels of spending in the individual states. The amount allocated to the Structural Funds from the EU's budget increased from 17.5 % in 1988 to 36% in 1999. For the period 1994-1999 period the Structural Funds' allocation has risen to ECU 157 billion (in 1995 prices). By 1999 a total sum of more than ECU 230 billion have been invested by the Structural Funds over a period of 10 years.[11]

However, in terms of macroeconomic impact, current forecasts show that assistance from the Structural Funds is having a significant influence on levels of economic activity in the regions concerned. Additional GDP growth in 1999 is estimated at 5.1% in Spain, 4.8% in Greece, 4.4% in Portugal, 3.8% in Ireland, 3.2% in the east of Germany and 2% in the south of Italy.[12]

11 Committee of the Regions, Reform of the Structural Funds. The contribution of the Committee of the Regions to the construction of Europe, Brussels, March 1998, p. 11.

12 European Commission DG XVI, Inforegio News, January 1999, p. 1.

3. Preparation for enlargement: the Agenda 2000

To prepare the Structural Funds to meet the challenges facing the EU in the year 2000 and beyond, including enlargement towards Central and Eastern Europe, the Commission proposed a radical reform of the Structural Funds covering the years 2000-2006. On July 16 1997, after the agreement on the Treaty of Amsterdam had cleared the way, the Commission presented Agenda 2000, the Commission's detailed strategy for strengthening and widening the Union in the early years of the 21st century.[13]

Agenda 2000 confronted three challenges facing the EU:

- how to strengthen and reform the EU's policies so that they can deal with enlargement;
- how to negotiate enlargement while at the same time preparing all applicant countries for accession;
- how to finance enlargement, the advance preparations and the development of the EU's internal policies.

The European Commission expressed its opinion that the Structural Funds should remain a vital instrument for strengthening the economies of underdeveloped regions and promoting economic and social cohesion in the EU. Strengthening economic and social cohesion under present conditions implies making European regional policy even more effective and transparent. According to Agenda 2000 the common principles of reform are therefore concentration, efficiency and simplification. The Commission is endeavouring to strengthen the partnership principle and will also try to ensure that the principle of decentralisation does not become renationalisation through the back door.[14]

13 European Commission, Agenda 2000. For a Stronger and Wider Union, DOC/97/6, Strasbourg, 15 July 1997.

14 Monika Wulf-Mathies (former EU Commissioner for Regional Policies): The future of structural policy, in: Committee of the Regions, Reform of the Structural Funds. The contribution of the Committee of the Regions to the construction of Europe, Brussels, March 1998, pp. 15-16.

Enlargement played a far greater role in Agenda 2000 than in any of the large financial packages of the past. The explanation is clear: the number of applicant countries and the differences between them are greater than ever before, and they will all be net recipients of the common budget. European solidarity will become more important than ever in achieving the major goal of reducing disparities in levels of development explicitly set by Article 130a.

As far as the Structural Funds are concerned, the Commission suggested that the Structural Funds' efficiency would be enhanced if the number of objectives were reduced to the following three:

- the regions lagging behind in development which are eligible under objective 1 and which face the most serious difficulties in terms of income, employment, the productive system and infrastructure, enjoy the same priority as in the past;[15]
- a new objective 2 devoted to economic and social restructuring brings together measures for other regions suffering from structural problems: these are areas undergoing economic change in industry and services, declining rural areas, crisis-hit areas dependent on the fishing industry or urban areas in difficulty;[16]
- a new objective 3 introduced for regions not covered by objectives 1 and 2 helps the member states to adapt and modernise their systems of education, training and employment.[17]

The Commission proposed that member states whose per capita GNP is less than 90 per cent of the EU average and which take part in the third phase of EMU should remain eligible for assistance from the Cohesion Fund. A review of eligibility under the criterion of per capita GNP should be carried out half-way in the period.[18]

15 Agenda 2000, p. 19.
16 Ibid.
17 Agenda 2000, pp. 21-22.
18 Agenda 2000, p. 23.

3.1 Costs of enlargement and absorption limit

The financial framework explained in Agenda 2000 was in line with more modest calculations.[19] It correctly emphasised that the costs of Eastern enlargement could be financed without increasing the contribution of the existing member states. The Commission has concluded that there is no need to raise the expenditure ceiling of 1.27 per cent of member states' GDP. On the basis of an average 2.5% growth rate in the EU and 4% in the applicant countries, it expected additional resources by 2006 of around 20 billion euros. Spending on structural policies remains pegged at the current limit of 0.46 per cent of GNP.[20]

The Commission proposed a budget of 230 billion euros for the existing 15 member states for structural policies between the years 2000 and 2006. 210 billion euros of this package would have been channelled into the Structural Funds for operations in the existing member states and 20 billion euros into the Cohesion Fund. From accession, between 2002 and 2006, the new member states would have received a total of 38 billion euros, including their share of the Cohesion Fund while pre-accession aid for applicant countries would have been 3 billion euros per year between 2000 and 2006.

An efficient implementation of structural policies requires the fulfilment of several conditions. The applicant countries need time to adapt to the working of the Structural Funds. On that basis, it was necessary to strengthen the pre-accession strategy so that, from the year 2000, a pre-accession support is in operation. This is the reason why, in addition to Phare, a pre-accession assistance is to be granted for structural operations and agricultural development.[21] From accession onwards, Structural Funds

19 Heavy financial burdens were calculated in most studies in the first half of the nineties. These figures supported the argument that Eastern enlargement is economically not feasible.

20 "... budgetary constraints will make it impossible to go beyond the effort made in terms of Union GNP in 1999 (0.46%). Nevertheless, with extra resources generated by growth and a more efficient use of the resources available, it should be possible to finance both the development of structural policies in the Union of 15 and the gradual integration of new Member States, from the moment of their accession." Agenda 2000, p. 18.

21 Agenda 2000, p. 72.

programmes and Cohesion Fund projects will replace pre-accession aid, taking account of the absorptive capacity[22] of each country.

In all events, total transfers from the Structural Funds and the Cohesion Fund to a present or future member state should not exceed 4 per cent of its GDP.[23] To some extent this limitation derives from the exaggerated calculations of enlargement costs. According to some figures, based on prolonging the past transfer mechanism, the CEECs could be entitled to yearly transfers up to 20 to 30 per cent of their GDP[24]. Obviously, such a high inflow could not be used efficiently and would produce unhealthy domestic economic problems such as increasing inflation. However, the individual CEECs are in a rather different position. In reality, the transfers directed to the more developed candidates amount to 8-12 per cent, which can be considered as the upper limit of efficient absorption for some years of heavy investment in infrastructure.

Regarding absorption capacity, previous EU experience could be misleading[25] because:

- the inhabitants of the candidate countries have a higher level of general education than those of some less developed EU countries ten years ago or even today (level of education has a strong positive effect on the absorption capacity of an economy);
- the CEECs 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);

22 "To avoid major problems with regard to absorption, the level of annual aid should increase gradually, subject to the general limit of 4% of national GDP, which would apply to the Structural Funds and the Cohesion Fund together." Agenda 2000, p. 24.

23 In this context, the most evident argument is that higher volumes of financial transfer in terms of GDP could not be efficiently absorbed by the beneficiary countries. However, countries show widely different levels of absorption capacity, therefore the application of such a limit should be avoided.

24 See for example: Besnainou, D., Les fonds structurels: quelle application aux PECO?, Économie Internationale, No. 62.

25 See Inotai, A., The Costs and Benefits of Eastern Enlargement of the European Union, Hungarian Academy of Sciences, Institute for World Economics, Working Papers No. 87, December 1997, p. 24.

- as a result of transformation, the CEECs have gained a relatively high level of social and institutional flexibility, which again correlates positively with efficient absorption.

Agenda 2000 concluded that enlargement brings considerable political and economic advantages. With the next enlargement of the EU, support from the Structural Funds and Cohesion Fund must apply to all the member states which join. Union solidarity is fully justified for these new members faced with major development needs, especially infrastructures, including those for the environment, the productive sector and human resources. The candidate countries will need heavy investment in areas such as environmental protection, transport, energy, industrial restructuring, agricultural infrastructure and rural society. At the end of the period the level of structural transfers for enlargement would represent almost 30 per cent of total Union structural funding.[26]

3.2 Establishing new funds for the candidate countries

As outlined in Agenda 2000, the EU's proposed pre-accession strategy focuses on the specific areas of the acquis communautaire where the candidate countries still have work to do. Up until the end of 1999, the main channel for the EU's financial support to the CEECs has continued to be the Phare Programme.[27] The aims of Phare have recently been re-worked to take account of the candidate countries' specific priorities as they prepare for accession.

In order to redirect support towards the preparation of the candidate countries for accession in the key areas identified in the Accession

26 Agenda 2000, p. 24.

27 The Phare Programme is currently the main channel for the EU's financial cooperation with the CEECs. It was set up in July 1989 to support economic restructuring. Throughout the 1989-1999 period, Phare has shown a continuing flexibility in adapting to the changing priorities and limitations of the reform process in each of its partner countries. However, there is a big difference between the resources made available by the Phare Programme and those member states are entitled to draw on. In per capita terms, an annual net inflow of EU money amounting to over ECU 650 in Ireland, ECU 400 in Greece, ECU 250 in Portugal and ECU 100 in Spain. In contrast, the support from Phare programme represents ECU 8 annually for Hungary. See Inotai, A., On the Way. Hungary and the European Union, Belvárosi Könyvkiadó, Budapest, 1998, p. 94.

Partnerships[28], all Phare activities now concentrate on two priorities. The first priority is to help the administrations of the candidate countries acquire the capacity to implement the acquis communautaire. Phare helps the national and regional administrations, as well as regulatory and supervisory bodies in the CEECs to familiarise themselves with EU objectives and procedures and to prepare their implementation. The second priority is to help the candidate countries bring their industries and major infrastructure up to EU standards by mobilising the investment required.

Between the year 2000 and each country's date of accession, and beyond the targeted assistance available under Phare, two new instruments are introduced: the Special Accession Programme for Agricultural and Rural Development (SAPARD) and the Instrument for Structural Policies for Pre-Accession (ISPA). These pre-accession aids will support projects that help the candidate countries prepare for accession, while familiarising the authorities and other relevant organisations with the methods used to implement EU support measures. After accession, once candidates have joined the EU, they will become eligible for EU assistance from the Structural Funds. The expectation is that new members will be eligible for support under objective 1 and will no longer receive pre-accession aid.

ISPA provides assistance to contribute to the preparation for accession to the EU of CEECs.[29] ISPA is similar to the Cohesion Fund as it operates today. The EU provides assistance under ISPA for the following:

- environmental measures enabling CEEC to comply with the requirements of Community environmental law;
- transport infrastructure measures which promote inter-connection and interoperability of national networks as well as with the trans-European networks.

28 See Official Journal C202, 29 June 1998.

29 Article 1 and 2, Proposal for a Council Regulation (EC) establishing an Instrument for Structural Policies for Pre-Accession /COM/98/0138 final -CNS 98/0091/, Official Journal C 164, 29 May 1998, p. 4.

The rate of EU assistance granted under ISPA may be up to 85 per cent of expenditure. On accession to the EU, a country shall lose its entitlement to assistance under ISPA.

SAPARD helps candidate countries deal with the structural adjustment in their agricultural sectors and rural areas.[30] Actions that improve market efficiency, quality and health standards and create new jobs in rural areas will be prioritised. Under the SAPARD programme, the EU may contribute up to 75 per cent of the total expenditure.

4. Decision on budgetary reforms: the Berlin European Council

The European Council met in Berlin on 24 and 25 March 1999. The special two-day summit was due to complete the Agenda 2000 reforms that cover the EU's financial arrangements for the seven years from 2000 to 2006. The Berlin European Council agreed on a compromise package of budgetary, agricultural and regional policy reforms to give the EU the financial stability over the next seven years to expand its membership into the Central and Eastern European new members. The prolongation of the upper limit of the EU budget in 1.27 per cent of GNP for the next seven-year budgetary period does not allow any quick change in the redistribution of resources. The agreement achieved its objective of budgetary rigour although radical reforms to the common agricultural policy were significantly diluted.

Gerhard Schröder, the German chancellor who chaired the meeting, stressed that the successful conclusion of the Agenda 2000 negotiations on reform of the EU's finances was the first time the Union had simultaneously reached an accord on future policies for its budget, the CAP and the Structural Funds.[31] Compromises over agriculture, regional aid and the UK rebate

30 See European Commission DG VI, Fact Sheets, Special Accession Programme for Agriculture and Rural Development, Brussels,1999, p. 3.

31 Financial Times, March 27/28, 1999, p. 1.

saved the summit and the EU from what would have been an extremely damaging failure.

The summit launched a modest reform of EU revenues, linking these more to gross national product and less to value added tax receipts.[32] Germany secured a deal that should reverse the upward trend of Germany's net contributions to the EU budget, at least in terms of a percentage of GDP.[33] The new deal will progressively reduce the amount paid according to the value added tax base of each country, from a notional 1 per cent today to a 0.75 per cent in 2002, and 0.5 per cent in 2004.[34] Instead the member states will pay more according to their gross national product, regarded as a fairer reflection of relative prosperity. The move will penalise countries such as Italy, Belgium, Denmark and Finland, and benefit others, such as Germany and the UK, which have high VAT bases.

Another change allows member states to retain 25 per cent of their traditional resources (customs duties and agricultural levies) to cover their collection costs. That would also benefit the UK and the Netherlands, both of which collect a higher proportion of such duties than most other member states. The UK's much criticised EU budget rebate will remain, although Britain accepted that this would decline. The member states also agreed to change the key by which the 14 countries pay for the British rebate, cutting contributions of Austria, Germany, the Netherlands and Sweden, the four other big net contributors. They will only pay 25 per cent of their normal share, the balance made up by the other member states.

32 At present, 16.1 per cent of EU finances come from duties and levies, 35.4 per cent from VAT, and 48.4 per cent from the GNP base.

33 The traditional solution of budget problems, last demonstrated at the Edinburgh Summit of December 1992, was for Germany "to pull out its cheque book". That option is not available now. Since unification, Germany has high unemployment combined with a faltering economy and a chancellor with neither the wish nor the budgetary wherewithal to follow Mr Kohl's example. Mr Schröder's goal is to cut rather than raise the 11 billion euros net contribution Germany pays to the EU each year. See Financial Times, March 24, 1999, p. 15.

34 European Council,Presidency Conclusions - Berlin European Council 24 and 25 March 1999, http://ue.eu.int/newsroom/main.cfm?LANG=1, p. 15.

4.1 The future of regional development supports

As far as the Structural Funds are concerned, the Berlin Summit agreed funding that will equal only 0.46 per cent of total EU GDP for the period until 2006. 213 billion euros will be spent by the Structural Funds and the Cohesion Fund for the existing member states between 2000 and 2006. This figure is significantly below the 230 billion euros earmarked for structural and cohesion payments under initial proposals in the Agenda 2000 drawn up by the European Commission.

Table : Structural Operations between 2000-2006

(million euros, 1999 prices)

	2000	2001	2002	2003	2004	2005	2006	TOTAL
Structural Funds (EU15)	29430	28840	28250	27670	27080	27080	26660	195010
Cohesion Fund (EU15)	2615	2615	2615	2615	2515	2515	2510	18000
Total (EU15)	32045	31455	30865	30285	29595	29595	29170	213010
Supports for the new members	-	-	3750	5830	7920	10000	12080	39580
Total (EU21)	32045	31455	34615	36115	37515	39595	41250	252590

Source: Presidency Conclusions - Berlin European Council 24 and 25 March 1999, pp. 16-17.

The European Council decided that greater concentration of Structural Fund assistance in the areas of greatest need will be achieved by means of reduction in the number of objectives to three (as it was proposed by the Commission). The European Council considered that the amount of money available for the Structural Funds should be 195 billion euros, broken down as follows:[35]

- 69.7 per cent of the Structural Funds will be allocated to objective 1 including 4.3 per cent for transitional support (i.e. a total of 135.9 billion euros);
- 11.5 per cent of the Structural Funds will be allocated to objective 2 including 1.4 for transitional support (i.e. a total of 22.5 billion euros);

35 Presidency Conclusions - Berlin European Council 24 and 25 March 1999, p. 7.

- 12.3 per cent of the Structural Funds will be allocated to objective 3 (i.e. a total of 24.05 billion euros).

Transitional support are given to all regions which no longer meet the relevant eligibility criteria.[36] Transitional support in all regions where assistance is being phased out should be lower in 2000 than in 1999, and will cease for both ex-objective 1 regions and ex-objective 2/5b by the end of 2005. All regions which fall out of the eligibility criteria for objective 1 and objective 2 funds receive special packages. These include the Lisbon region, East Berlin, the Hainaut region of Belgium, Highlands and Islands of Scotland. A special financial allowance is given to Greece, Ireland, Portugal and Spain in order to maintain, for the period 2000 to 2006, the overall average level of per capita aid reached in 1999. The amounts concerned are 450 million euros for Greece, 450 million for Portugal, 40 million for Ireland and 200 million for Spain.[37]

The negotiations saw some difficult exchanges between Germany and Spain over Spain's demand for a continued high level of Cohesion Fund money. Germany has agreed to the principle that Spain and Portugal may continue receiving cohesion funds, even though they are now part of the EU's single currency zone. For Madrid the cohesion aid deal was made possible after other governments agreed to allow four countries, including Spain, to continue benefiting from the Cohesion Fund. The European Council agreed that the basic objectives of the Cohesion Fund, which was set up to further economic and social cohesion in the EU and solidarity among the member states by providing a financial contribution to projects in the field of the environment and trans-European networks, are still relevant. The EMU membership does not disqualify countries from continuing to have Cohesion

36 Adequate transitional support for regions which are no longer eligible for assistance are an essential counterpart to greater concentration of Structural Funds, so as to underpin the results secured by structural assistance in ex-Objective 1 regions, and to support the end of the conversion process in areas ceasing to be eligible under Objective 2/5b., Presidency Conclusions - Berlin European Council 24 and 25 March 1999, p. 9.

37 Presidency Conclusions - Berlin European Council 24 and 25 March 1999, p. 10.

Fund money so long as their national income is less than 90 per cent of the EU average.[38]

The Cohesion Fund will amount to 18 billion euros between 2000 and 2006. This is proportionately less than the 20 billion euros for the six years ending next January, but Greece, Portugal and Spain will be able to increase their shares of the fund from about 2003 because Ireland, one of the four countries, will no longer qualify. Ireland is among the biggest losers as recent economic growth has deprived most of the country of eligibility for objective 1. However, the fall in its receipts was limited to about 56 per cent on an annualised basis after reclassification of regions allowed the west coast to continue receiving objective 1 funds.

4.2 Funding for the candidate countries

The amount of money for pre-accession aid will be 3.12 billion euros per year. This support consists of 1.56 billion euros available under the Phare Programme, 520 million euros from the SAPARD and 1.04 billion euros from the ISPA. These supports will enable the countries concerned to become familiar with the procedures concerning structural operations. From accession onwards, Structural Funds programmes and Cohesion Fund projects will replace pre-accession aid. For structural operations the EU has set aside 3.75 billion euros for new members in 2002, rising to 12.08 billion in 2006.[39] Total amount of regional development supports will be equal to 39.58 billion euros for the period between 2002 and 2006.

The amount of 3.75 billion euros available in 2002 amounts to 0.7 per cent of the five first-round candidate countries' total GDP in purchasing power parity in 1997 or represents 6 euros per capita.[40] It means that if all of the candidate countries join the EU in 2002, the proposed assistance would not mean equal treatment compared to the present less developed member states where the GDP share is around 4 per cent and per capita figures are around

38 Ibid., p. 12.
39 Ibid., pp. 16-17.
40 See GDP figures and population of the Czech Republic, Estonia, Hungary, Poland and Slovenia in annex.

400 euro per head. It reflects the fact that the EU does not prepare for enlargement with all of the candidate countries as early as 2002. It seems that the EU would like to enlarge gradually and at the beginning with smaller economies. However, even the support of 12.08 euros in 2006 would amount only to 1.5 per cent of the five countries`GDP at that time, if we suppose a 4-5 per cent annual growth in the candidate countries' economies.

Candidate countries for EU membership welcomed the budget reforms, expressing hopes that the accord would help speed up accession talks. The completion of the Agenda 2000 negotiations has created a clear financial framework in which the EU can press ahead with enlargement to the east. However, it is not clear what will happen to the resources allocated for the new members between 2002 and 2006 if not all of them join the EU in this period. Can they be fully made use of by those who join or will part of the money be set aside for the coming years ? Moreover, what are the rules of the game if the first enlargement does not take place in 2002 but a couple of years later ?

The situation becomes even more complicated if we assume that not all first-round countries will become members by 2006, and those who join the EU before this deadline will be admitted in different years. In the meantime a new situation has emerged because due to accession negotiations started with other countries from Central and Eastern Europe as well**:** in this case the number of new members could be even more by 2006.

Of course, the transfers alone do not solve the whole problem of modernisation. A clear integration strategy, well-defined regional development programmes, policies and regional institutions are the key national components of the catching-up process. As the experience of less developed EU member states shows, external resources may prove important supportive factors of well-defined domestic policies.[41] Domestic policies making use of EU funds have to be clearly defined in order to avoid the emergence of rent-seeking mentality. This is a particularly important policy

41 See Inotai, A.: On the Way. Hungary and the European Union, Belvárosi Könyvkiadó, Budapest, 1998, pp. 103-104.

element because some patterns of the old paternalistic mentality are still alive in the candidate countries.

Summary

1. The most important argument in favour of an EU regional development policy is the necessity to have an active device by which the welfare benefits of economic integration are spread throughout the European Union. There is no guarantee that this will occur if market forces are allowed to operate freely. Evidence would suggest that the opposite effect might result, and that development would become even more concentrated in the centre of the EU. It was not until after the second and third enlargements of the EU in 1981 and 1986 respectively, and the adoption of the Internal Market programme as part of the Single European Act, that regional policy was given a high profile among the activities of the Union.
2. To prepare, among others, the common regional policy to meet the challenges facing the EU in the year 2000 and beyond, including enlargement towards Central and Eastern Europe, the Commission presented the Agenda 2000, the Commission's detailed strategy for strengthening and widening the Union, including a radical reform of the Structural Funds covering the years 2000-2006. It emphasised that the costs of Eastern enlargement can be financed without increasing the contribution of the existing member states. The Commission has concluded that there will be no need to raise the current expenditure ceiling of 1.27 per cent of member states' GDP.
3. The Berlin European Council agreed on a compromise package of budgetary, agricultural and regional policy reforms to give the EU financial stability over the next seven years to expand its membership into the Central and Eastern European new members. 213 billion euros will be spent within the existing 15 member states for regional development aid between 2000 and 2006. This figure is significantly below the 230 billion euros earmarked for structural and cohesion payments under initial proposals in the Agenda 2000 drawn up by the European Commission.

One of the big compromises is that a special financial allowance will be given to Greece, Ireland, Portugal and Spain in order to maintain, for the period 2000 to 2006, the overall average level of per capita aid reached in 1999.

4. From 2000, two new instruments will be introduced: the Special Accession Programme for Agricultural and Rural Development and the Instrument for Structural Policies for Pre-Accession. These pre-accession aids, together with the Phare Programme, will support projects that help the candidate countries prepare for accession, while familiarising the authorities and other relevant organisations with the methods used to implement EU support measures. The amount of money for pre-accession aid will amount to 3.12 billion euros per year. From accession onwards, Structural Funds programmes and Cohesion Fund projects will replace pre-accession aid, taking account of the absorptive capacity of each country. The new members will be eligible for support under Objective 1 and will no longer receive pre-accession aid. The EU has set aside 3.75 billion euros for new members in 2002, rising to 12.08 billion in 2006.

5. Total transfers from the Structural Funds and the Cohesion Fund to a present or future member state should not exceed 4 per cent of its GDP. Regarding absorption capacity, previous EU experience could be misleading because the inhabitants of the candidate countries have a higher level of general education than those of some less developed EU countries ten years ago or even today; the CEECs 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 CEECs have gained a relatively high level of social and institutional flexibility, which again correlates positively with efficient absorption. In reality, the transfer to be directed to the more developed candidates 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.

6. The completion of the Agenda 2000 negotiations has created a clear financial framework in which the EU can press ahead with enlargement to

the east. However, the amount of 3.75 billion euros available in 2002 amounts to 0.7 per cent of the five first-round candidate countries' total GDP in purchasing power parity in 1997 or represents 6 euros per capita. Even the support of 12.08 euros in 2006 would amount only to 1.5 per cent of the five countries GDP at that time, if we suppose a 4-5 per cent annual growth in the candidate countries' economies.

7. It is not clear what happens to the resources allocated for the new members between 2002 and 2006 if not all of them join the EU in this period. The situation becomes even more complicated if we assume that not all first-round countries will become members by 2006, and those who join the EU before this deadline will be admitted in different years. In addition, accession negotiations started with other countries from Central and Eastern Europe as well. Because of this fact the number of potential new members who will become eligible for regional development assistance could be even more by 2006 than it was assumed at preparation of Agenda 2000.

Annex

*Table : Per capita GDP in PPP**

	GDP (IN PPP, BIO. EURO)	POPULATION (MILLION PERSON)	GDP PER CAPITA (EURO)	GDP PER CAPITA (EU15=100)
Bulgaria	36.7	8.3	4400	23
Czech Republic	123.8	10.3	12000	63
Estonia	10.3	1.5	7000	37
Hungary	90.3	10.1	8900	47
Latvia	12.7	2.5	5100	27
Lithuania	21.3	3.7	5800	30
Poland	291.2	38.7	7500	40
Romania	131.8	22.5	5800	31
Slovakia	48.2	5.4	8900	47
Slovenia	25.8	2.0	13000	68
CEEC 10	792.0	105.0	7500	40
% of the EU	11.1	28.0	40	

*PPP=purchasing power parity

Source: European Commission DG I., Composite Paper on the Commission Reports, 1998, p. 31.

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