Agenda 2000 and the 2000–2006 financial perspective

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The Madrid European Council (15–16 December 1995), which decided on the transition to the euro on 1 January 1999 and the launch of the Intergovernmental Conference (IGC) to revise the Maastricht Treaty, was concerned about the impact of the forthcoming enlargement on Community policies and asked the Commission to look into the matter. The Commission, under its President, Jacques Santer, tackled the subject in exhaustive detail and, on 16 July 1997, presented a substantial document entitled 'Agenda 2000: For a stronger and wider Union', in which it set out its vision of the future of the European Union, its development prospects and the reforms that were needed.

Agenda 2000 expressed the Commission's views on the opening of accession negotiations with those of the applicant countries that it felt were able to fulfil the required conditions and proposed the measures needed to prepare them for accession. As regards the impact of enlargement on Community policies, the Commission felt that, as far as the Community budget was concerned, regional policy and the common agricultural policy (CAP) would have to be reformed. The proposals which Agenda 2000 put forward here were to lead to heated debate because of the Member States' different interests. In financial terms, the Community budget, reformed in 1988, continued to develop along the same lines.

As regards resources, the 'own resources' levied by the Member States and transferred to the Community continued to decline. Customs duties on imports from third countries were reduced by international agreements designed to remove customs barriers and by the accession of new Member States, falling from 17.5 % of own resources in 1997 to 14.3 % in 2003. Agricultural levies, charged on imports of agricultural products covered by the CAP in order to compensate for the difference between world prices and the highest guaranteed Community prices, fell as the Community became self-sufficient in food; their share of own resources fell to 2.7 % in 1997 and to 1.9 % in 2003. It was, therefore, necessary to use other resources levied by the Member States from their own budgets, first from value added tax, with a maximum assessment basis set at a percentage of gross national product (GNP) so as not to penalise the less wealthy Member States. The maximum rate applicable here, which had gone up from 1 % initially to 1.4 % in 1986, then came down to 1 % in 1999 and to 0.5 % from 2004. The revenue from value added tax (VAT), which had been the main source of revenue for the Community budget, fell to 44.6 % of own resources in 1997 and to 24.2 % in 2003. This was why a fourth resource, variable according to demand, was needed in order to balance the budget. This resource is based on the Member States' GNP (the rate was 0.6198 % in 2003) and now accounts for the lion's share of the budget, having increased from 35.2 % of own resources in 1997 to 59.6 % in 2003.

The VAT and GNP resources appear as national contributions which are dependent on the economic cycle and whose rates are fixed by the Member States following unanimous approval by the Council. This explains why there are such bitter discussions between governments about Community expenditure and how the cost is divided among the various Member States, with each seeking a 'fair return' on its contribution in the form of Community spending in its territory, whereas 'own resources' were specifically designed to avoid this sort of problem, particularly as the idea of a fair budget return does not take account of the economic advantages gained by participating in the Common Market.

Structural inequalities do exist, however. The United Kingdom, which receives little in the way of CAP subsidies, obtained a rebate on its payments which was formalised in 1984 by the introduction of a correction mechanism which reimburses, every year, two thirds of the previous year's imbalance between its contribution and what it receives from the Community. This is paid for by the other Member States *pro rata* according to their GNP, except for Germany, where there is already an imbalance and whose contribution is cut by one third. This rebate has become less justified because of the growth in the UK's GNP, but the British Government has always opposed any review.

As far as expenditure is concerned, the direction taken in 1988 has continued, with a curb on spending on agricultural guarantees and the development of structural measures.

For the 2000–2006 multiannual financial perspective, Agenda 2000 put forward the 'Santer Package' (a

reference to the 'Delors I and II Packages'). As far as resources were concerned, the Commission did not feel it necessary to exceed the 1.27 % of GNP ceiling set in 1988. Spending had actually fallen spontaneously, since countries receiving much higher levels of structural funding were unable to use all of it, and Member States wishing to join the euro were making efforts to balance their budgets. For the future, the Commission considered that the forthcoming enlargement would have only a limited impact before 2006 and that, with economic growth forecast to be 2.5 % per year, resources would increase naturally. The budget should thus increase from ECU 92.5 billion in payment appropriations (at 1997 prices) to ECU 114.5 billion in 2006. However, the distribution of resources would have to change: the Commission recommended reducing the VAT resource, which placed too heavy a burden on the least wealthy countries, and, instead, increasing the GNP resource, which was fairer. As for spending, the Commission reckoned on a slowdown in agricultural spending thanks to reforms, a further increase in structural measures and only a slight increase in spending on internal policies, external measures and administration.

This enormous programme had to be approved by the Member States. It was a comprehensive package, the various elements of which were fiercely discussed and horse-traded. Since it was all about transferring the allocation of resources, each government did its best to lose as little as possible. Germany, pointing to the cost of reunification, called for its net contribution to be reduced, as did the Netherlands, Austria and Sweden. France defended the agricultural subsidies which it received. The United Kingdom refused to give up the rebate on its contribution. The southern European countries opposed any reduction in regional aid, although such aid was now required for the countries applying for accession.

After difficult negotiations, the Berlin Extraordinary European Council (24–25 March 1999) adopted the 2000–2006 financial perspective, but without carrying out all the proposed reforms, particularly those concerning agriculture. On 6 May, the European Parliament, the Council and the Commission signed a new interinstitutional agreement in which they undertook, when adopting the annual budget, to keep within the spending ceilings and to apply some kind of discipline in the Union's budgetary procedures.

With regard to resources, it was decided to reduce the VAT share by cutting the call-up rate from 1 % to 0.5 % from 2004 and to increase from 10 % to 25 % the proportion of customs duties and agricultural levies retained by the Member States, the loss of revenue being offset by the GNP resource, which would account for almost 70 % of resources from 2004. This increase was justified by the growth in the cost of fighting fraud. As for the scale of contributions required from each Member State, the United Kingdom succeeded in keeping its rebate, but Germany, Austria, the Netherlands and Sweden, which were significant, long-term net contributors, would pay only 25 % of what they should have paid towards the rebate, the remaining 75 % being added to the share already paid by France and Italy (low net contributors) and, to a lesser extent, by Greece, Spain, Portugal and Ireland, which were heavy net beneficiaries, thanks to the Structural Funds.

Nevertheless, inequalities still persisted. Seen in relation to the GNP of each Member State, the disparity between the contributions paid (the VAT and GNP resources) and the operating appropriations received (excluding administrative expenditure) varied considerably.

The biggest net contributors by volume were Germany, the United Kingdom (despite its rebate), Italy, the Netherlands and France. But the burden was very unequal in relation to the GNP of each country, representing 0.51 % of GNP for the Netherlands, 0.29 % for Sweden, 0.24 % for Germany, 0.23 % for Italy, 0.14 % for France and 0.17 % for the United Kingdom. Austria and Denmark were moderate net contributors, with 0.11 % and 0.09 %, while Finland's account was practically in balance. Belgium and Luxembourg, however, classified as net contributors according to the criteria referred to above, were no longer so in reality, if account was taken of the administrative expenditure of the Community institutions which have their seats in the capital cities of those countries. The net beneficiaries were the Member States receiving structural funding, where the credit balance represented a high percentage of their GNP: 2.39 % for Greece, 2.14 % for Portugal, 1.5 % for Ireland and 1.29 % for Spain, which received the largest volume of aid, ahead of Greece, Portugal and Ireland (in Ireland, the level of aid was declining).

With regard to expenditure, the aim was to stabilise this in real terms; in other words, it should only increase as a result of inflation. Agricultural spending would peak in 2002 and then fall. Structural aid would be

slightly reduced, but it would be more concentrated on regions that really needed it. Pre-accession aid was planned for the applicant countries, along with a contingency reserve consisting of appropriations set aside to cope with enlargement. For the period 2000–2006, expenditure would not absorb the total revenue, a safety margin being included below the 1.27 % of GNP ceiling.

The accession of 10 new Member States, approved by the Copenhagen European Council (12–13 December 2002) would be financed at reduced cost. From 1990 to 2003, Community pre-accession spending reached EUR 19 billion. From 2004 to 2006, this aid would amount to EUR 37.5 billion, minus EUR 15.8 billion in contributions from the new members to the EU budget, giving a net figure of EUR 21.7 billion. In total, from 1990 to 2006, EUR 40.7 billion would have been spent on preparations and support for enlargement, using existing funding and without calling on additional resources.

All in all, the EU budget, which amounts, in practice, to no more than EUR 100 billion, or just over 1 % of GNP, is quite inadequate for pursuing the necessary common policies in basic areas (industry, transport, research) or for giving the new Member States effective help in catching up and, at the same time, developing a common security and defence policy.