Statement by the Slovenian Delegation for the negotiations for accession to the EU on the financial package (December 2002)

Caption: In December 2002, the Slovenian Delegation for the negotiations for the accession of the Republic of Slovenia to the European Union summarises the main provisions relating to the financial package granted to the country by the EU.

Source: Negotiations on the Accession of the Republic of Slovenia to the European Union Completed: Presentation and assessment of the financial package. [ON-LINE]. [Ljubljana]: Government Office for European Affairs-SVEZ, [06.06.2005]. Available on http://www2.gov.si/svez/svez.nsf/0/89efb49b7496a076c1256fcf007755d6/$FILE/Negotiations%20on%20the%20Accession.doc.

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Negotiating Team of the Republic of Slovenia for the Accession to the European Union - Statement

Negotiations on the Accession of the Republic of Slovenia to the European Union Completed: Presentation and assessment of the financial package

Summary

At the meeting of the European Council in Copenhagen on 13 December 2002, the Republic of Slovenia completed its negotiations on the accession to the European Union.

• In the area of agriculture, the following goals have been met: Slovenian farmers will have access to the same level of direct payments as enjoyed by their colleagues from the EU Member States as from 2007; the levels of quotas and reference quantities are all above the current production levels in the country; a comprehensive and developmentally interesting financial package for rural development in the period 2004 2006 amounting to around EUR 250 million. The achievements of the negotiations thus allow Slovenian farmers to preserve their economic position and ensure Slovenia a favourable position in the future reforms of the Common Agricultural Policies.

• In the area of regional policy and coordination of structural instruments, Slovenia negotiated to receive EUR 404 million of funds from the structural instruments in the period 2004 2006: EUR 236 million from the Structural Funds and EUR 168 million from the Cohesion Fund.

• EU agreed to take over a part of the costs related to establishing and maintaining of the Schengen border and will earmark for Slovenia altogether EUR 107 million in the period 2004 2006 for this purpose. This amount accounts for 45 percent of total Slovenia's costs related to carrying out of this project.

• With regard to Slovenia's contributions to the EU Budget and Slovenia's net budgetary position, our goals have been met. For the period 2004 2006, the European Union approved Slovenia lump sum payment of EUR 234 million. This will improve the positive net Slovenia's budgetary position from EUR 45 million foreseen for 2003 to around EUR 85 million foreseen for each year in the period 2004 2006.

The agreed financial package solutions are favourable for Slovenia in the short as well as in the long term. The agreements made in the area of quotas and reference quantities, topping up of direct payments from the national budget, amount of rural development funds and funds for co financing the Schengen border as well as the agreement about Slovenia's possibility for regionalisation at NUTS 2 level are all the elements of the financial package which clearly indicate its long term orientation. These elements will not only have important effects on Slovenia's development but will provide a solid basis for our country to remain a net recipient of the funds from the EU Budget also in the period of the next financial perspective, i.e. from 2007 to 2013. Undoubtedly, this would be an adequate solution for Slovenia, given its level of development in comparison with other Member States of the enlarged European Union and would in addition contribute to long term public finance stability of our country. The financial package agreed upon with the European Union is relatively favourable also in its short term perspective. Following the conclusions of the Brussels Economic Council already, Slovenia would be a net beneficiary of funds from the EU Budget in the period 2004 2006. However, the increased amount of lump sum payments agreed upon in the final phase of the negotiations even strengthened the foreseen positive net budgetary position of Slovenia vis à vis the European Union in this period and consequently also reduced potential public finance risks.

I. Introduction

At the European Council Summit on Friday, 13 December, five years of negotiations on the Republic of Slovenia's accession to the European Union were completed. This was another decisive step of Slovenia on the path to its integration into a united Europe, which was set forth as Slovenia's strategic goal back at the times when it still belonged to the former SFR of Yugoslavia.

The negotiations were primarily intended for the future member states to harmonise their legislation with the acquis and to prepare themselves for efficient implementation of the acquis. However, this enlargement process the fifth so far differs in many aspects from the previous enlargements. First, the number of countries joining the European Union is this time much higher. Second, the systemic differences between the present and future Member States are much wider. In previous enlargements the countries joining the European Union had well established market economy. This time the acceding countries are still undergoing the process of transition to a developed market economy. Third, the extent of the acquis that has to be transposed and implemented is much larger, and includes a number of entirely new areas, for example, accession of new member states to the European monetary system. And last but not least, the enlargement takes place at a rather unfavourable time from the financial point of view. Many Member States are namely affected with serious fiscal problems and have much more limited possibilities for financing new Member States, which are in addition at a relatively low level of economic development than was the case in previous enlargements.

It was no coincidence that agreements on the financial package – i.e. agriculture, the amount and structure of structural funds received by Slovenia under the common economic policies of the European Union from the EU Budget in the period 2004 2006 and the amount of Slovenia's contributions to the EU Budget in the same period – were left to the very final phase of negotiations.

II. Slovenia's goals in negotiations on the financial package and the aspects of assessing the achievements

In its negotiations on the financial package, Slovenia opted for the most favourable combination whereby it would be able to meet the following two main goals: (i) the final agreement with the EU must allow Slovenia to continue the process of real convergence, that is the process of further reducing Slovenia's development lag behind the EU average; and (ii) the agreement would not deteriorate Slovenia's public finance position and as a consequence cause difficulties in achieving the fiscal part of the Maastricht criteria.

The results of the financial package negotiations in terms of meeting the development and public finance goals may be presented and assessed from the two points of view. First is the short term perspective, that is the period from the time when Slovenia becomes a EU Member State (as foreseen in May 2004) to the end of the present financial perspective (the end of 2006). Second is the long term perspective, that is the period of the next seven year financial perspective (2007 2013). The agreements made, therefore, have clearly defined development and public finance goals for the period up to 2006. Their long term importance, which is even more important, lies in the fact that by these agreements Slovenia establishes the basis for its participation in the negotiations about the new financial perspective. It will not be before these negotiations in which the present acceding countries will take part as full members that the real reallocation of funds between old and new member states will take place for the first time.

III. The course of negotiations on the financial package

The negotiations on the financial package in fact began in January 2002 with the European Commission publishing the document "Common Financial Perspective 2004 2006", whereby it defined the basic framework for discussion about the financial aspects of accession of candidate countries to the European Union, that is about agriculture, structural funds and regional policy and the contributions to the EU Budget. As a result of its extremely horizontal nature, the document was not favourable for Slovenia as it failed to sufficiently take into account the specific features of our country being the most developed of all candidate countries from central and eastern Europe.

The negotiations on the financial package proceeded through four phases. The first phase lasted from the issue of the above Commission's document in January to early September this year, when the Commission came out with its proposal of the distribution of funds among the future Member States. In this period, Slovenia's activities were oriented first, to explaining our position about the basic approach to the financial part of negotiations and second, to the formation and well justified presentation of Slovenian proposals to the Commission and Member States that would in an adequate manner respond to Slovenia's specific problems in the financial part of negotiations.

The period between the Commission's proposal of 5 September and the Brussels European Council at the end of October was the second phase of financial package negotiations. In this period, the EU Member States adopted their official positions on the financial part of negotiations. All the changes made to their basic financial proposal in this phase were exclusively a result of Slovenia's efforts for changing some of the methodological assumptions on the basis of which individual figures were calculated. The final outcome of this phase of negotiations was favourable for Slovenia, as the total amount of lump sum payments which Slovenia was to receive from the EU Budget in the period 2004 2006 increased in total by EUR 35 million [(1)].

The third phase of financial package negotiations took place in November, i.e. in the period from the Brussels European Council to the first proposal of the Danish Presidency of 26 November. This proposal contained positive and less positive elements for Slovenia. Its basic positive characteristic was that those figures of the financial package were increased or introduced anew that were important from Slovenia's long term development perspective and which meant a good starting point for the negotiations about the next financial perspective. Among them, a considerably increased amount of funds for Slovenia from the EU Budget in the area of agriculture should be mentioned (up by EUR 191 million in the period 2004 2006) and the funds from the new financial scheme called »Schengen facility« (EUR 107 million in the period 2004 – 2006). In addition, a conclusion about putting off the date of accession to the EU to 1 May 2004 also had a financially positive effect for Slovenia, as the foreseen amount of Slovenia's payments to the EU Budget was reduced for that year by one third, i.e. by EUR 82 million. On the other hand, the first Danish Presidency proposal was less favourable for Slovenia as regarded attaining short term public finance goals in negotiations, i.e. the goals for the period 2004 2006. The proposal assured Slovenia attaining a positive net budgetary position which was one of Slovenia's strategic goals in the financial part of negotiations. However, the increased amount of the foreseen receipts from the EU Budget and a reduced amount of the foreseen payments to the EU Budget did not result in an adequate improvement of its net budgetary position, what was the case for other acceding countries at a lower level of economic development. In turn, this meant that the amount of lump sum payments which Slovenia was to receive in the period 2004 2006 was in fact reduced accordingly, i.e. by EUR 373 million.

The fourth and the last phase of negotiations took place in the period from the first Danish Presidency proposal and the European Council in Copenhagen. As the long term structural goals of the financial part of the negotiations were achieved in the previous phase, all the efforts in this last phase were focused on attaining the public finance goals in the period 2004 2006. In concrete terms this means that the basic goal to be achieved in this phase was to improve the positive net budgetary position of Slovenia by increasing the amount of lump sum payments, and in this manner to limit to the greatest possible extent the potential public finance risks related to Slovenia's accession to the European Union. Slovenia achieved the following results in this phase: first, more favourable assumptions on the basis of which Slovenia's payments to the EU Budget are determined prevailed (net positive effect of EUR 34 million in the period 2004 – 2006). Second, the amount of lump sum payments increased considerably. In the period before the Copenhagen Summit, they increased by EUR 94 million for the whole period 2004 – 2006, and during the Summit by additional EUR 49 million. Third, the net budgetary position of Slovenia improved by EUR 114 million for the period 2004 – 2006. Altogether, Slovenia's net budgetary position thus improved from plus EUR 135 million to plus EUR 200 million in the run up to Copenhagen, and to plus 249 million at the Copenhagen Summit.

IV. Presentation and assessment of the results of negotiations in individual areas of the financial package

Agriculture

Four strategic goals were set forth in the negotiations in the area of agriculture: (i) full and equal participation in the Community policies; (ii) the economic position of Slovenian farmers should not deteriorate because of the EU accession, (iii) the levels of quotas and reference quantities that are subject of negotiations must not be lower than the present production levels in Slovenia, and (iv) the solutions should be adapted to the specific structural and development problems of Slovenian agriculture and should take into account the foreseen changes of the Common Agricultural Policy.

These goals were fully met and the package of solutions is altogether favourable for Slovenia. Of all the candidates, it enables Slovenia by far the highest level of topping up of direct payments to farmers from the national budget. In addition, only Slovenian farmers will have access to direct payments at exactly the same level as their colleagues from the EU Member States as from 2007, i.e. from the beginning of the new financial perspective, and will be in this element of the Common Agricultural Policy on entirely equal footing as them. The concept of "acquired rights" in negotiations often plays an important role in the EU, therefore such a favourable Slovenia's starting position in negotiations on the EU finances for the period 2007 – 2013 is very precious.

Also the outcome of negotiations on quotas and reference quantities is favourable for Slovenia. It is true that the final figures are lower than the (purposely high) required figures at the outset of the negotiations, however they are absolutely all above the current production levels. Even certain restructuring reserves exist on account of the differences between the data and the actual absorption. The agreed quotas and reference quantities allow further restructuring of Slovenian agriculture and at the same time improve Slovenia's possibilities in further changes of the Common Agricultural Policy.

In the negotiations, Slovenia managed to assure itself an exhaustive and developmentally interesting package of solutions for rural development in the period 2004 2006, worth altogether around EUR 250 million. It is a strong programme, involving compensatory payments for LFAs, agri environmental payments and some other measures. The programme allows the formation of a more quality government policy as regards agriculture and rural areas and at the same time improves Slovenia's position in the future debates about the CAP reform. In our estimations, the reform should go in the direction of strengthening of the second pillar, i.e. overall rural development, and this means that a quality and comprehensive enough programme will serve as a solid basis also for the negotiations on the next seven year financial period.

The solutions agreed upon in direct payments, quotas and rural development programme promise not only maintained economic position of Slovenian farmers but even a substantial improvement for those producers who will follow the environmental and developmental orientation of the agricultural policy.

Structural funds and regional policy

In this area, Slovenia endeavoured to meet two major goals: (i) to increase the amount of funds the EU earmarked for Slovenia in the period 2004 2006, and (ii) to reach an agreement according to which the less developed part of the Slovenian territory will preserve the status of Objective 1 region (region with the widest possible access to EU structural funds) also in the next financial perspective. Slovenia agreed in the negotiations to receive in the period 2004 – 2006 (this period is a kind of transitional period to full drawing of structural funds) altogether EUR 404 million from EU structural instruments, of which EUR 236 million from Structural Funds and EUR 168 million from the Cohesion Fund. The final decision concerning regionalisation of Slovenia for the needs of the cohesion policy (regionalisation at NUTS 2 level) will be taken by the end of 2006. This in fact means that Slovenia gained additional three to four years to reach an agreement on the number of regions at NUTS 2 level. In relation to the regulation on the EU criteria for regionalisation which is passing through the last legislative phase this agreement allows for a realistic chance that a large part of Slovenia's territory will be eligible for drawing funds from the EU structural funds also in the period 2007 2013. Those Slovenian regions that will preserve the status of Objective 1 region also in the next financial perspective, will at that time have full access to the structural funds assistance, which means, of course, a considerably greater amount of funds than in the period 2004 2006.

From the long term perspective, the agreements may be assessed as very positive from the long term perspective. They give Slovenia a wide room for manoeuvre in its talks with the EU concerning regionalisation of the country at NUTS 2 level and this provides opportunities for drawing funds for structural activities in the period after 2007. In the short term perspective, it would be better if the amount of funds approved for structural and development purposes in the period 2004   2007 was slightly higher. However, it is understandable in view of the criteria applied that the EU earmarked a relatively small share of funds for the most developed candidate countries, Slovenia ranking at the very top of them. Assessing this agreement from the public finance point of view, we can conclude that a relatively small amount of these funds also means smaller risks. Experience of the countries acceding in previous enlargements namely show that in the first year of membership new member states were only able to draw a relatively small amount of approved funds. This means that more structural funds in the first years of membership   when the country is not yet fully qualified for their drawing   means also taking on greater public finance risks.

The Schengen border

In addition to the possibility of topping up direct payments to farmers from the national budget and forming of a special financial reserve for rural development, the solutions regarding Schengen border were the third conceptual novelty introduced by Slovenia to the financial part of negotiations between the EU and the candidate countries. The EU accepted Slovenia's proposal and undertook to take over part of the costs of establishing and maintaining the Schengen border in the new Member States. Slovenia will thus in the period 2004 – 2006 receive altogether EUR 107 million for this purpose. This is 45 percent of total costs which Slovenia is estimated to have in this period with this project. Introducing the Schengen border issue as a special item in the EU Budget for Slovenia is not important only in the short term perspective   as a temporary source of finance for this project   but also provides a solid long term basis. It is quite realistic that the Schengen border item will remain in the EU Budget also in the period of the next financial perspective. This is not only in the interest of the “new” Member States, whose borders are to become EU external border, but also of those "old" Member States which at present cover alone the costs of maintaining the Schengen regime at their borders.

Contributions to the EU Budget and net budgetary position of a country

In the area of Slovenia's contributions to the EU Budget and the net budgetary position of a country in relation to the EU Budget, Slovenia set forth the following goals in negotiations:(i) in the period 2004 2006 to achieve a better positive net budgetary position than recorded in the year before the accession and (ii) in the period 2007 – 2013 to assure such a level of funds and structure of inflows from the EU Budget that Slovenia will not be a net payer to the EU Budget.

The agreed solutions are in line with both goals. The Brussels European Council in October eliminated the dilemma whether Slovenia could be a net payer to the EU Budget in the 2004 – 2006 period. The EU namely took a decision that no new member should find itself in a worse net budgetary position after accession that in the year before the accession. Slovenia achieved this by an agreement whereby lump sum payments amounting to EUR 234 million were approved to it for the period 2004   2006. By this move, Slovenia's net budgetary position improved from EUR 45 million, foreseen for 2003, to around EUR 85 million foreseen for each of the three years in the period 2004   2006. It is of extreme importance that Slovenia   in calculation of the net budgetary position   managed to achieve that the real amount of contributions to the EU Budget is taken into account, as the original amount was underestimated by 12 percent. In this manner, Slovenia improved its budgetary position for the period 2004   2006 by EUR 78 million. Half of this improvement was achieved on account of higher than foreseen rates of economic growth and a half by taking into account the National Statistical Office data on higher revised GDP, which was approved also by Eurostat for the purpose of calculating the lump sum payments only in the case of Slovenia. Such an outcome of negotiations gives Slovenia some room for manoeuvre for managing the risks to which it could be exposed in the event of potentially inefficient drawing of EU funds from rural development and structural funds items.

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(1) All the values in this Statement are expressed at 1999 prices and are by around 10% lower than the values expressed at current prices.