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Facing the Monster 'Juste Retour': On the Net Financial Position of Member States vis-à-vis the EU Budget and a Proposal for Reform

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In memory of Tamás Földi

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Executive summary

1. *The 'juste retour' attitude, namely each EU member state's priority for securing the best possible individual net financial position vis-à-vis the Community budget over any other consideration concerning the Community budget, is stronger than ever. This has been proved by the protracted bargaining on the financial perspective of the European Union for 2007-2013 and the achieved compromise based on a large number of exemptions. The persistence of this attitude may seriously endanger the elaboration of a financial perspective for the post-2013 years and may also block further enlargements. The* ***aim of this research*** *was to contribute to a better understanding of that phenomenon and, based on the findings, propose a comprehensive reform of the EU budget which provides a satisfactory solution to the 'juste retour' problem.*

2. *The differences across member states in terms of* ***net financial positions*** *are indeed remarkable. In the period 1997-2006 the group of* ***major net payer*** *countries (the Netherlands, Germany, Sweden and Austria) had an average 'deficit' vis-à-vis the EU budget amounting to 0.35% of their GNI. For the group of* ***minor net payers*** *(Denmark, France, Finland and Italy) the respective indicator was 0.08% only. The UK with its rebate stood closer to the second group. The enlargement has increased the number of* ***net beneficiary*** *member states but the full impact of this change will only be felt in 2013, after the 'phasing-in' process has been nearly completed. Estimated net financial positions for 2013 show that major net payers' financial positions will be similar as they were in 1997, but those of the minor payers will deteriorate to an important extent. The gap between major and minor net payers will become much smaller than it was before the enlargement. Of the net beneficiary member states only the three best positioned ones will attain the extent of the 'surplus' vis-à-vis the EU budget that Greece and Ireland, top beneficiaries in the old EU, enjoyed in 1997. The majority of the new members will receive substantially less than that.*

3. *For a proper assessment of the significance of the net financial positions of the member states it is expedient to see them in a* ***broader context****. In 2006 the group of net payer member states achieved a close to six times higher surplus in* ***trade*** *with the group of net beneficiary member states than the sum of their 'loss' due to the fact that they paid more to the EU budget than they received. The surplus of the major net payers Germany and the Netherlands in trade with the net beneficiary member states was six times and seven times, respectively, that of Austria 19 times as much as their negative net financial positions. Concerning gains from* ***FDI****, in 2005 repatriated profits of Austrian firms from beneficiary member states was three times more than Austria's 'deficit' vis-à-vis the EU budget, for Germany the respective sums were very similar.*

4. ***Contributions*** *to the EU budgetary* ***revenues*** *should be proportional to the relative prosperity of the member states, as according to the philosophy of the redistribution among member states in the EU, solidarity among member states is to be manifested on the expenditure side of the EU budget. The current system, if cleared from the effects of*

the UK rebate, would roughly correspond to this requirement, but in the prevailing arrangement it does not. Several reform proposals envisage the introduction of a European tax, with the intention to transform the financing of the EU budget so that the 'juste retour' attitude vanishes. In the present paper we test various candidates for this tax (VAT, tax on motor fuel for road transport, corporate income, personal income and various forms of financial transactions) as to whether they fulfil the requirement for proportionality of contributions to the EU budget in relation to the economic strength of the member states. The results show that a couple of member states would contribute substantially more or less to the Community budget than their share in the aggregate EU GNI. One can conclude that the large deviations that the proposed taxes may produce would open up a new battlefield for discussions motivated by the 'juste retour' attitude.

5. *On the **expenditure** side of the EU budget, conditions of eligibility for support have evolved over decades in the framework of various EU policies. This has led to a strong differentiation in the extent of financial support by member states, decoupled from their relative prosperity. Comparing the member state shares in the EU GNI and in major expenditure headings in the past ten years, it can be seen that two member states, Germany and the UK, were overall 'losers': in each main policy area their share was substantially lower than in the aggregate EU GNI. While the UK obtained a rebate to remedy this situation, Germany was compensated only with a rebate in financing the UK rebate. The Netherlands joined the club of overall 'losers' from 2003 on. Pre-allocated expenditures (direct payments, rural development and cohesion) allow an estimation for member state participation in various EU policies in 2013. The results indicate an **increasing polarization**: 8 member states will be 'losers' both in agricultural and cohesion expenditures while 13 member states will be 'winners' in both areas, and only 6 of the 27 will occupy a mixed position.*

6. *The final chapter of the paper presents a **comprehensive reform proposal** concerning the EU budget. The clue of the proposed new system is that it faces the 'juste retour' problem frontally instead of negating or circumventing it.*

*The **guiding principles** of the proposed new EU budgetary system are: fair sharing of burdens across member states, citizens and firms; clear and simple rules for the collection of revenues and allocation of expenditures, without exemptions; and, finally, maximum possible flexibility in the utilization of resources from the EU budget.*

*The proposed new rules for **cross member state redistribution** are:*

- *Member state **contributions** are determined by the **member state per capita GNI**.*
- *Member state **receipts** are determined by the **per capita average EU GNI**.*
- *Differences in **net financial positions** of individual member states relative to the GNI are determined solely by differences in **relative prosperity**, clearly measurable through the per capita GNI indicator.*
- ***Solidarity** of member states is expressed on the **revenue side** of the Community budget through higher per capita contributions by more well-to-do member states and*

on the expenditure side through different purchasing power of the same per capita transfer in less prosperous member states than in the more prosperous ones.

Reform proposals for the ***revenues*** *of the EU budget:*

- *The contribution of each member state is fixed as a* ***unified rate*** *(1%) of the member state GNI.*
- *The contributions are collected in each member state via splitting up a* ***pre-fixed share*** *of collected* ***VAT*** *and* ***corporate income tax*** *revenues. Should revenues from the two taxes surpass the pre-set sum of the member state's contribution, the surplus will be re-channelled to the member state's treasury.*

Reform proposals for the ***expenditures*** *of the EU budget:*

- ***Each citizen of the EU*** *'receives' a certain share (1%) of the average per capita EU GNI each year. Receipts from the EU budget at* ***member state level*** *would amount to 1% of the average per capita EU GNI multiplied by the number of inhabitants in the member state concerned.*
- *Receipts from the EU budget can be utilized to finance* ***eligible programmes*** *along various EU policies, but not for any other purposes.*
- *The new rules for the allocation of expenditures across member states open the door for* ***more flexibility*** *than currently in the allocation of resources from the EU budget across eligible targets.*

Comparing the estimated financial position of net payer member states in 2013 under the prevailing and the reformed system, respectively, shows that ***each net payer*** *member state would* ***come off better****, though to varying extents, under the new regime. Further enlargements, even with Turkey, would create an average net financial position for this group of member states similar to what had been prevailing in 1997-2006. The same comparison for the* ***net beneficiary*** *member states, however, indicates* ***less gains*** *under the new regime. Nevertheless,* ***clear rules*** *for the post-2013 years, smaller, but* ***safely secured*** *and for the long run* ***foreseeable*** *transfers from the EU budget, as well as significantly increased* ***flexibility*** *in the utilization of EU resources may win the net beneficiary member states for the reforms proposed.*

Keywords: *EU budget, cross member state redistribution, juste retour, fair sharing of burdens, net financial position, own resources and expenditures, financial perspective, reform, European tax*

JEL classification: *F15, F36, H20, H23, H70, H77, H87*

Sándor Richter [*]

Facing the monster 'juste retour': on the net financial position of member states vis-à-vis the EU budget and a proposal for reform

Motto:

As it stands today, the EU budget is a historical relic. Expenditures, revenues and procedures are all inconsistent with the present and future state of EU integration … The procedure for adopting the EU Financial Perspectives (the multi-annual frameworks, which determine the maximum amount for every item of expenditure in the EU annual budget) is driven by narrow national calculations of self-interest, bolstered by unanimity voting. For these reasons, the successive negotiations to renew the Financial Perspectives for a five or seven-year period have always followed the line of least resistance, which consists of modifying, at the margin only, the financial allocations of the previous period. As a result, the current budget is more the expression of different deals and attempts by governments to claw back in receipts as much of their contribution as possible (juste retour *again!) than a coherent set of measures aimed at pursuing EU objectives.*

André Sapir, 'An Agenda for a Growing Europe. Making the EU Economic System Deliver', Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission, July 2003, p. 162.

Introduction

The two-year-long bargaining on the financial perspective of the European Union for 2007-2013 showed the weak points of the current system of cross member state redistribution. The outcome was a compromise based on a number of exemptions. As a consequence, cross member state redistribution in the EU is now further from a rule-based system than it has ever been.

As a reflection of the disappointing result of the long negotiations, the document presenting the compromise achieved at the European Council (15/16 December 2005) on the Financial Perspective 2007-2013 ends with points 79 and 80, which '… invite the Commission to undertake a full, wide-ranging review covering all aspects of EU spending, including CAP, and of resources, including the UK rebate, to report in 2008/9'.[1] This invitation opens up an important research field to elaborate proposals for a comprehensive reform of the European Union's budget. This paper is intended to deliver a contribution to the forthcoming discussion in the international research community on the reforms of the EU budget.

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[1] European Council (2005), p. 32.

The structure of this study is as follows:

First, the cross member state *redistribution* in the EU and then the definition and interpretation of the *net financial position* in the context of the EU budget will be discussed. This will be followed by an analysis of the excessive net financial positions in the past and their treatment, the UK rebate, and conceptual questions of correction mechanisms and the member state claims for 'juste retour' in the context of negotiations on the medium-term financial framework of the EU.

Second, various possible options for the *'own resources'* system (revenues of the EU budget) will be addressed, as well as their effects on the future net financial positions of member states in the light of alternative courses of reform, especially the introduction of a European tax.

Third, various possible options for a reform of *expenditures* from the EU budget will be analysed, addressing the main expenditure headings with an assessment of the position of groups of member states as beneficiaries/losers in financial terms within main expenditure headings of the EU budget in the past and in the future. While pondering the impact of reforms on the net financial positions and the extent of national co-financing, possible changes in the proportions between main expenditure headings and utilization rules will be discussed.

Finally, a proposal for a comprehensive reform of the EU budget will be presented, based on the findings of the research. In this section the impact of further enlargements of the EU on future net financial positions will also be discussed.

1 Cross member state redistribution in the EU and the interpretation of the net financial position

1.1 Introduction

A unique feature of EU integration is the redistribution of resources across member states. Nothing comparable can be found or is planned in any of the integration blocks in the world economy. Cross member state redistribution has grown from a modest level in the early stages of mainstream European integration to its present volume. Accounting for approximately 1% of the EU's GNI, it is rather small compared to the nation-wide redistribution of resources by the general government in individual EU member states. In 2006 general government revenues of the EU member states, on average, amounted to 45% of the EU's GDP, while expenditures amounted to 46.6%.[2] Within the EU, the low end in revenues was 33.5% of GDP (Slovakia), in expenditures 33.0% (Estonia). The highest

[2] Data of Bulgaria and Romania included.

redistribution was recorded in Sweden (for revenues 57.9%, for expenditures 55.6% of GDP).[3] Nevertheless, national budgets have many more tasks to be fulfilled than the EU budget; e.g. social benefits made up 19.4% of the EU members' general government expenditures, an item which is non-existent in the EU budgetary expenditures. As most of the EU budgetary expenditures finance investments, it is expedient to compare expenditures for gross fixed capital formation financed by the general government in member states to the EU budgetary expenditures. The former amounted, on average, to 2.5% of the EU member states' GDP in 2006, the latter corresponded to approximately 1% of the EU's aggregate GNI.[4] In this comparison, the EU budget does not look small at all.

In the history of the EU, the redistribution of resources across member states has gained in significance as relatively poor new member states have joined the Community and integration has become deeper and targets more ambitious. The systematic planning of the size and structure of the redistribution of resources across member states was introduced in the late 1980s with the first financial perspective, the so-called Delors I (1988-1992), subsequently extended to Delors II (1993-1999), and the recently completed period of the Agenda 2000 (2000-2006).

1.2 Definition and interpretation of the 'net financial position' in the context of the EU budget

Main features of the EU budget

The EU budget differs from national budgets in the sense that it always must be balanced, i.e. the own resources of the EU must fully cover the EU's expenditures. The EU cannot finance its expenditures with credit; the budget may not accumulate debt. This, however, does not mean that the sum of the member state contributions is equal to the aggregate sum of expenditures transferred to member states from the common budget. The reason for this is that the EU is spending outside the Union for aid programmes in less developed countries and pre-accession aid. In 2006 member states at aggregate level received about 8% less than the sum of their contributions.[5] This has to be taken into consideration in the calculation of the net financial positions of individual member states.

In the prevailing EU budgetary system, revenues from individual member states and expenditures allocated to them are not interrelated. The own resources are collected in such a way that the member states contribute to the common budget principally according to their economic strength, while the expenditures are allocated according to individual, non-interrelated EU policies. Only one of the several expenditure headings (transfers from

[3] Eurostat (2007).

[4] Ibid.

[5] European Commission (2007), p. 7.

the Cohesion Fund) is directly related to differences in relative economic strength of *member states*. All other expenditures are dependent on fulfilling *other* than member state level criteria.

A decision on own resources must be unanimous. For the approval of the allocation of expenditures, a majority vote of the member states is sufficient.

What is a net financial position?

In the broadest approach, the net financial position of a member state is the difference between its contribution to and its transfers from the EU budget in a given year. What the net financial position of a member state in practice will be, is a question of the definition and methodology chosen. The following main issues are to be addressed here:

- member state payments to the EU budget: the items to be included and the items to be excluded;
- EU transfers for member states: the items to be included and the items to be excluded;
- use of cash or accrual data: how to account for the unspent balances from the previous year;
- adjusting (or not adjusting) the budgetary balances so that they sum up to zero. Due to expenditures spent outside the EU, revenues received from and expenditures allocated to member states are not balanced, although the EU budget as a whole must be balanced each year.

Depending on the assumptions made on the four issues above, not less than 30-40 perfectly defensible definitions for budgetary balances can be constructed.[6]

Currently the Commission calculates the so-called operating budgetary balances, that is, the difference between the operational expenditures allocated to each member state (less the administrative expenditures) and the adjusted national contribution of each member state.[7] The national contribution *does not* include the traditional own resources, as they are considered as pure EU revenue resulting from the customs union and the CAP. Another methodology with a sort of official status is used for calculating the UK rebate. This includes administrative costs, which results in completely different (much better) net financial positions for Belgium and Luxembourg, both relatively small member states hosting important EU institutions.

In this paper, the term 'net financial position' will always be used, if not otherwise indicated, as equivalent for 'operating budgetary balances' as defined by the European Commission.

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[6] European Commission (2004), Annex 3, p. 5.

[7]‘ Here 'adjusted' means that national contributions are adjusted to equal total EU operating allocated expenditure, so that net balances sum up to zero. European Commission (2006a), p. 137.

Excessive net financial positions and their treatment

In the 1960s the Community budget was small, with most of the spending for the CAP. In this period no one ever thought of calculating net balances; later Emile Noel, the Secretary General of the European Commission, prohibited the Commission from making calculations about the net financial position of individual member states.[8] Up to as late as 1994, the Commission's reluctance to talk about redistribution in the Union went so far that it refrained from publishing details of the allocation of revenues/expenditures across member states.

Tensions in the budget started to build up in the early 1970s, due to three trends:[9]

- continued liberalization of international trade under the GATT agreements, leading to reduced incomes from customs duties;
- increasing surpluses of several agricultural commodities, leading to smaller revenues from levies on imported agricultural products and growing storage and export subsidy costs;
- the accession, in 1973, of the UK, which was a large importer of agricultural produce from outside the Community and had a relatively small agricultural sector in a period where most of the Community expenditures were within the framework of the CAP, with the result that from 1979 on, the UK government challenged the persisting cross member state allocations through the Community budget.

Budgetary imbalance became a problem right after the UK's accession due to the country's relatively small agricultural sector with atypical structural features, on the one hand, and its proportionally larger contribution to the budget due to the country's relatively higher share in the harmonized VAT base than in the total GNP of the Community, on the other hand.

The first treatment of this problem was initiated in 1975, in the form of 'dynamic brakes'. The UK contribution was to be capped if three conditions were simultaneously met:

- if the GDP per capita was lower than 85% of the Community average,
- if the rate of economic growth was less than 120% of the Community average and
- if the UK's share in own resources was more than 10% higher than the UK's share in Community GDP.

Although the solution was meant to solve the UK's problem, it was principally designed to be available for each member state, and thus set the precedent for a rule-based solution to the problem of budgetary imbalance. Nonetheless, these three conditions never applied for any member state and the mechanism was never applied.[10]

[8] Cacheux (2005), p. 3.

[9] Cacheux (2005), p. 5.

[10] European Commission (1998), Annex 4, p. 2.

The second round for addressing the UK budgetary imbalance took place in 1979. The European Council initiated a compensation on the expenditure side of the budget in the form of specific measures for the UK. This became a precedent for the discretionary solutions for treating budgetary imbalance.

The classical model of the UK rebate was born in 1984 at the Fontainebleau European Council. Although the Council declared: 'Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances. However, it has been decided that any member state sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time',[11] this statement essentially represented an acknowledgement of the Community's failure to act directly on the sources of the imbalances.

In practical terms, the UK rebate is calculated as follows: The contribution of the UK to the Community budget is reduced by an amount equal to 66% of its budgetary imbalance.[12] The financing of the UK rebate has been shared between all the member states in accordance with their respective economic strengths. From 2002 on, Germany, Austria, Netherlands and Sweden, the four major net payer member states, have been beneficiaries of a rebate on the UK rebate, to the effect that they pay only 25% of their normal share. These measures are discretionary and not rule-based.

A rule-based solution, a generalized budgetary compensation mechanism, was proposed to address excessive budgetary imbalances as early as 1998 by Germany's minister of finance. The proposal was based on the Conclusions of the Fontainebleau European Council of June 1984, according to which, as cited above, any member may benefit from a correction.

The generalized correction mechanism was intended:

- to be non-discriminatory by being available to all eligible member states;
- to take into account each member state's capacity to pay;
- to correct not all, but only those budgetary imbalances considered as excessive (in order to respect the fundamental policy decisions on the expenditure side of the budget);
- to foster budgetary discipline for both net contributors and net beneficiaries;
- to be sufficiently flexible to facilitate the achievement of fair solutions.[13]

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[11] European Council (1984).

[12] The methodology for the calculation of the UK rebate has been changing over time. For details see European Commission (1998), Annex 3 and Annex 4, and European Commission (2007).

[13] European Commission (1998), Annex 6, pp. 1-2.

The generalized correction mechanism's central issues are the net burden (the budgetary balance), the threshold beyond which the compensation is triggered, and the coefficient of compensation. For the net burden, the most plausible solution is the application of the UK rebate methodology. The threshold must be seen as the extent of maximum (financial) solidarity among the member states. The coefficient of compensation may range between zero and one, and it determines, together with the cap on the maximum sum available for compensation for the eligible member states.

The idea of the generalized correction mechanism was not put into practice, but it emerged again in the preparatory activities for the 2007–2013 financial perspectives.[14] The proposal was again rejected by the member states.

1.3 Net financial positions – the facts

The net financial position of a member state is the result of summing up several unrelated items on both the own resources and expenditure sides. In the current system, the net financial positions of individual member states vary considerably. Although operational balances are correlated to national prosperity to a certain extent, i.e. the less well-to-do member states have typically better net financial positions than the member states with higher-than-average per capita GNI, there are considerable differences across the net financial positions of member states that are at a similar level of economic development (this will be discussed in more detail further on).

Let us take an imaginary member state 'A', which is at 89% of the EU average level of development. Member state A has huge regional differences with a number of regions below 75% of the EU average, agriculture plays a relative significant role in the economy, with an output in which a high share of the produce is subsidized by the CAP. This member state will enjoy support from the Structural Funds, the Cohesion Fund, and within the framework of the CAP. Then let us take an imaginary member state 'B'. Its average level of development corresponds to 91% of that of the EU, the economy is regionally balanced, its agriculture is relatively insignificant, with an output consisting of items typically not supported by the CAP. In the current system, both member states would contribute roughly at equal terms to the common budget, but member state 'A' would emerge far better than 'B', as the latter would hardly be a recipient of transfers from the EU budget. In a benevolent interpretation, member state B expresses solidarity with member state A, which is coping with economic and social problems, through undertaking a much poorer net financial position vis-à-vis the EU budget from year to year. In a less benevolent interpretation, member state B is punished (to the extent that its net balance is worse than that of member state A) because its economy is marginally more prosperous than that of

[14] European Commission (2004b). The proposal is described in detail in European Commission (2004a).

A, it has managed to avoid regional disparities, and has specialized in agricultural activities that are able to remain competitive without subsidies. With this illustrative example we have arrived at the problem of 'juste retour'.

The latest available data on operative balances (net financial positions) are from the year 2006 (see Tables 1.1 and 1.2), while the developments in this field in the last ten years are presented in Tables 1.3 and 1.4.

In 2006, the third year of the EU after the enlargement from 15 to 25 members, there were 11 net payer member states and 14 net beneficiary member states. The relatively (compared to its GNI) most important net payer member state was the Netherlands, with a net financial position equalling nearly half of one per cent of its GNI, while on the other extreme we find Luxembourg and the UK with net financial positions amounting to hardly more than one tenth of a per cent of their GNI. In absolute terms, Germany's contribution was the highest, at EUR 6.3 billion (Table 1.1). Taking the *per capita* net financial positions, the rankings of the net payer member states are similar but not identical. The Netherlands has the lead, followed by Sweden with a considerable lag (41% less per capita net contribution). From Sweden downwards, the differences across individual member states' net financial positions are smaller, but still considerable. At the bottom of the ranking, Italy's per capita net contribution to the EU budget (EUR 30) is less than one-fifth of that of Netherlands, at the top (EUR 158).

Table 1.1

Net financial positions of the EU member states in 2006

	Net payer member states			**Net beneficiary member states**	
	EUR million	**in % of GNI**		**EUR million**	**in % of GNI**
			Greece	5.102	2,68%
Netherlands	-2.589	-0,47%	Lithuania	585	2,52%
Sweden	-857	-0,28%	Malta	101	2,09%
Germany	-6.331	-0,27%	Latvia	255	1,63%
Belgium	-711	-0,23%	Portugal	2.291	1,54%
Denmark	-506	-0,23%	Estonia	176	1,40%
France	-3.018	-0,17%	Hungary	1.115	1,35%
Finland	-242	-0,14%	Poland	2.997	1,16%
Austria	-302	-0,12%	Slovakia	323	0,76%
Italy	-1.736	-0,12%	Cyprus	102	0,73%
Luxembourg	-30	-0,11%	Ireland	1.080	0,71%
UK	-2.144	-0,11%	Slovenia	143	0,49%
			Spain	3.809	0,40%
			Czech Republic	386	0,36%

Source: European Commission (2007), Annex 5.

Individual net beneficiary member states receive much more from the EU budget in terms of their GNI than the net contributions of individual net payer member states, in the same terms. Only Spain and the Czech Republic, the two countries positioned at the bottom of the net beneficiary member states' ranking, received less in 2006 in relative terms than the net contribution to the EU budget from the Netherlands, the highest in the group of net payers.

The differences across member states also are substantial among the net beneficiaries. The top beneficiary, Greece, with net transfers amounting to 2.68% of its GNI, received seven times as much as the last-positioned Czech Republic (Table 1.1). Of the 14 countries in the group of net beneficiaries, two enjoyed net transfers amounting to more than 2.5% of their GNI, five between 1% and 2% of their GNI, and six less than 1%. Differences in per capita net transfers between the best and worst positioned countries, Greece and the Czech Republic, are shocking: in 2006 the former received 12 times as much as the latter (EUR 458 and EUR 38, respectively, see Table 1.2). Greece's lead over the second-placed Ireland was even larger than the Netherlands' lead over Sweden in the group of net payer countries.

Table 1.2

Per capita net financial positions of the EU member states in 2006

Net payer member states	EUR per capita	Net beneficiary member states	EUR per capita
Netherlands	-158	Greece	458
Sweden	-94	Ireland	253
Denmark	-93	Malta	249
Germany	-77	Portugal	216
Belgium	-67	Lithuania	172
Luxembourg	-65	Cyprus	133
France	-48	Estonia	131
Finland	-46	Latvia	112
Austria	-36	Hungary	111
UK	-35	Spain	86
Italy	-30	Poland	79
		Slovenia	71
		Slovakia	60
		Czech Republic	38

Source: European Commission (2007), Financial Report, Annex 5; own calculations.

Historical data over the last ten years provide another perspective (see Tables 1.3 and 1.4). In these ten years, two important changes took place that had an impact on net financial positions. The first was the decision to reduce four member states' contributions to the financing of the UK rebate to 25% of the level that would have been the case if each

member state had contributed to the financing of the EU budget proportionally to its GDP/GNI.[15] The second was the enlargement of the EU by ten new member states, all being net beneficiaries of cross member state redistribution. This latter effect appeared only gradually, as the new members had to go through a phasing-in process, raising their receipts by degrees.[16]

Despite the enlargement, the same 11 countries remained the net payers over the whole period, i.e. non of the pre-enlargement beneficiaries came over to the club of net payers following the enlargement. An overview of the net financial position of these 11 net payer member states in the period 1997-2006 shows that they can be divided into four groups.

The group of *major net payer member states* consists of the Netherlands, Sweden, Germany and Austria. In 1997-2006 these countries delivered a net contribution to the EU budget amounting to 0.35% of their GNI on average, with the highest relative contribution by the Netherlands (0.44%) and the lowest by Austria (0.22%). The time sequence indicates a gradual decrease of these member states' burden, which was highest, on average, in 1997 (0.46%) and lowest in 2006 (0.29% of their GNI). In 2002, the year when these member states received a 'rebate' on financing the UK rebate, was a milestone indeed, with significantly fewer negative net financial positions compared to those in the pre-2002 years. Of the four member states concerned, Austria undoubtedly benefited the most from the changing rules of the game, enjoying a reduction of its burden by nearly three quarters compared to 1997. The difference between Austria's best and worse years in this period amounted to 0.32 percentage points relative to its GNI.

The second group is that of the *minor net payer member states,* including Denmark, France, Finland and Italy. The net financial position of these member states was distinctly better compared to the major net payers. Each of these countries had a 'surplus' vis-à-vis the EU budget in at least one year during the period 1997-2001. While Italy and France had, on average, twice as high a 'deficit' as Finland and Denmark, the group average net position was equal to -0.08% of GNI in 1997-2006. This is only one fourth of the group average of the major net payers (-0.35%). Even the country with the relatively lowest 'deficit' (-0.22% of GNI) in the major net payer group, Austria, had twice as poor a net financial position as the two countries with the highest 'deficit' (-0.11% of GNI) in the group of minor net payers (France and Italy). Though the difference in the relative burden in financing the EU budget remained considerable over the whole period, it decreased to a spectacular extent if the first and last years of the period concerned are compared.

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[15] Austria, Germany, the Netherlands and Sweden.

[16] In the field of structural expenditures up to 2006, in direct payments for farmers up to 2013.

Table 1.3

Net financial position of various groups of net payer member states in per cent of the GNI, 1997-2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	average 1997-2006
Major net payers											
Netherlands	-0.32%	-0.43%	-0.47%	-0.36%	-0.50%	-0.46%	-0.40%	-0.40%	-0.52%	-0.47%	-0.44%
Sweden	-0.52%	-0.36%	-0.38%	-0.41%	-0.40%	-0.29%	-0.35%	-0.38%	-0.30%	-0.28%	-0.37%
Germany	-0.56%	-0.42%	-0.43%	-0.40%	-0.33%	-0.23%	-0.35%	-0.32%	-0.27%	-0.27%	-0.36%
Austria	-0.44%	-0.34%	-0.32%	-0.21%	-0.26%	-0.10%	-0.15%	-0.16%	-0.11%	-0.12%	-0.22%
Average	*-0.46%*	*-0.39%*	*-0.40%*	*-0.35%*	*-0.37%*	*-0.27%*	*-0.31%*	*-0.32%*	*-0.30%*	*-0.29%*	*-0.35%*
Minor net payers											
Denmark	0.08%	0.00%	0.07%	0.14%	-0.13%	-0.09%	-0.12%	-0.11%	-0.13%	-0.23%	-0.05%
France	-0.11%	-0.07%	0.00%	-0.05%	-0.13%	-0.14%	-0.12%	-0.18%	-0.17%	-0.17%	-0.11%
Finland	0.03%	-0.09%	-0.16%	0.21%	-0.11%	0.00%	-0.02%	-0.05%	-0.05%	-0.14%	-0.04%
Italy	-0.03%	-0.13%	-0.07%	0.10%	-0.16%	-0.23%	-0.06%	-0.21%	-0.16%	-0.12%	-0.11%
Average	*-0.01%*	*-0.07%*	*-0.04%*	*0.10%*	*-0.13%*	*-0.12%*	*-0.08%*	*-0.14%*	*-0.13%*	*-0.16%*	*-0.08%*
Net payers with high incomes from administrative expenditures											
Belgium	-0.19%	-0.18%	-0.14%	-0.13%	-0.28%	-0.19%	-0.28%	-0.18%	-0.20%	-0.23%	*-0.20%*
Luxembourg	-0.35%	-0.48%	-0.48%	-0.28%	-0.70%	-0.23%	-0.28%	-0.42%	-0.36%	-0.11%	*-0.37%*
Net payer with rebate											
UK	0.01%	-0.26%	-0.20%	-0.19%	0.06%	-0.15%	-0.14%	-0.16%	-0.08%	-0.11%	*-0.12%*

Source: European Commission (2007), Financial Report, Annex 5; own calculations.

Table 1.4

Net financial positions of member states: average, worst and best years in the period 1997-2006

	Average 1997-2006	Worst net financial position	Year	Best net financial position	Year	Range in % points
Netherlands	-0.44%	-0.52%	2005	-0.32%	1997	0.19%
Sweden	-0.37%	-0.52%	1997	-0.28%	2006	0.24%
Germany	-0.36%	-0.56%	1997	-0.27%	2005/2006	0.29%
Austria	-0.22%	-0.44%	1997	-0.11%	2005	0.32%
average	-0.35%	*-0.51%*		*-0.25%*		*0.26%*
Denmark	-0.05%	-0.23%	2006	0.14%	2000	0.00%
France	-0.11%	-0.18%	2004	0.00%	1999	0.18%
Finland	-0.04%	-0.16%	1999	0.21%	2000	0.38%
Italy	-0.11%	-0.23%	2002	0.10%	2000	0.33%
average	-0.08%	-0.20%		0.11%		*0.31%*
Belgium	-0.20%	-0.28%	2001/2003	-0.13%	2000	*0.16%*
Luxembourg	-0.37%	-0.70%	2001	-0.11%	2006	*0.59%*
UK	-0.12%	-0.26%	1998	0.06%	2001	*0.32%*

Source: European Commission (2007), Financial Report, Annex 5; own calculations.

The third group of the net payer member states consists of two countries, Luxembourg and Belgium. On the basis of their net financial positions (-0.37% and -0.20% period average, respectively) they should clearly be positioned in the group of major net payers. Luxembourg even set the record negative net financial position with -0.70% of its GNI in the year 2001. The reason why these two member states are to be treated separately from the other major net payers is that both countries are host to important EU institutions which involve huge expenditures in these countries from the EU budget under the heading administration. It is clear that the methodology of the net financial positions excludes administration from eligible expenditures, but the fact that they enjoy considerable financial inflows under this heading puts these two member states in a completely different (much weaker) negotiating position than the one achieved by the major net payers. Table 1.5 shows that the transfers for Belgium under the heading administration amount to 1% of its GDP; in the much smaller Luxembourg this contribution was not less than 4.27% of GNI.

Finally, we have a fourth group with one member only. The United Kingdom’s indicators for the net financial position delegate it to the group of minor net payers (-0.12% of GNI on average in 19972006); however, this is thanks to the special rebate which returns two thirds of the original UK ‘deficit’ vis-à-vis the EU budget. Without this rebate, financed by the other member states, the UK financial position would be in the range of -0.36%, very close to the average of the major net payer group. Certainly, without the rebate the major net payers’ financial position would be better than it is now, when they co-finance, even if to a reduced extent, the UK rebate. In turn, the UK net position would be over the group average, close to or even higher than that of the Netherlands.

Table 1.5

Administrative expenditures paid from the EU budget in Belgium and Luxembourg, 1997-2006

	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**average 1997-2006**
Belgium											
Net financial position in % of GNI (A)	-0.19%	-0.18%	-0.14%	-0.13%	-0.28%	-0.19%	-0.28%	-0.18%	-0.20%	-0.23%	*-0.20%*
Administrative expenditures in % of GNI (B)	0.99%	0.97%	0.97%	0.94%	0.91%	0.96%	1.00%	1.03%	1.13%	1.13%	*1.00%*
Difference(A)-(B)	0.80%	0.79%	0.83%	0.81%	0.62%	0.77%	0.72%	0.84%	0.93%	0.91%	*0.80%*
Luxembourg											
Net financial position in % of GNI (A)	-0.35%	-0.48%	-0.48%	-0.28%	-0.70%	-0.23%	-0.28%	-0.42%	-0.36%	-0.11%	*-0.37%*
Administrative expenditures in % of GNI (B)	4.95%	4.91%	4.14%	4.06%	3.92%	3.94%	4.58%	4.49%	4.05%	3.70%	*4.27%*
Difference(A)-(B)	4.59%	4.42%	3.66%	3.78%	3.22%	3.71%	4.30%	4.07%	3.68%	3.59%	*3.90%*

Source: European Commission (2007), Financial Report, Annex 5; own calculations.

To what extent do the proportions of net financial positions reflect the proportions of the member states' economic strength? Tables 1.6 to 1.8 compare the distribution of GNI by member states and the distribution of the operational balances (net financial positions) separately in the group of net payer and net beneficiary member states, respectively, in three selected years, 1997, 2003 and 2006.

Table 1.6

Net financial positions of member states and their relation to GNI, 1997

	Operational balance, share in GNI in %	**GNI** ECU mn	**GNI distribution** in %	**Operational balance** ECU mn	**Operational balance distribution** in %	**Deviation of GNI from operational balance shares** in % points
			(1)		**(2)**	**(1)-(2)**
Net payer MS						
Germany	-0.56%	1,893,432.8	36.49	-10,677.2	67.12	-30.62
Sweden	-0.52%	215,300.8	4.15	-1,116.7	7.02	-2.87
Austria	-0.44%	181,545.4	3.50	-798.0	5.02	-1.52
Luxembourg	-0.35%	15,728.4	0.30	-55.8	0.35	-0.05
Netherlands	-0.32%	345,686.3	6.66	-1,119.1	7.03	-0.37
Belgium	-0.19%	224,685.9	4.33	-416.6	2.62	1.71
France	-0.11%	1,266,561.1	24.41	-1,405.5	8.83	15.58
Italy	-0.03%	1,045,782.5	20.15	-320.0	2.01	18.14
Total		*5,188,723.1*	*100.00*	*-15,908.7*	*100.00*	
Net beneficiary MS						
Ireland	4.43%	63,405.8	2.88	2,809.8	17.66	-14.78
Greece	3.95%	110,103.4	5.01	4,350.4	27.35	-22.34
Portugal	2.77%	97,630.2	4.44	2,708.5	17.03	-12.59
Spain	1.14%	500,861.1	22.77	5,734.8	36.05	-13.28
Denmark	0.08%	148,285.1	6.74	117.6	0.74	6.00
Finland	0.03%	106,674.8	4.85	30.1	0.19	4.66
UK	0.01%	1,172,601.9	53.31	157.5	0.99	52.32
Total		*2,199,562.3*	*100.00*	*15,908.7*	*100.00*	

Source: Own calculations based on European Commission (2007), Annex 5, p. 63.

The main message to be read from the 1997 data is that, on the one hand, Germany had undertaken much more in financing the cross member state redistribution than would have been justified on the basis of its share in the net payer member states' aggregate GNI alone (see Table 1.6). On the other hand, Italy and France had a much lower burden in the financing of the EU budget than they would have had if their net financial positions reflected their relative economic strength (GNI).

In 2003 we see a similar picture, but with smaller deviations both on the side of Germany (as a member state contributing 'too much') and Italy and France (paying less than justified

by their economic strength). The UK, still a net beneficiary member state in 1997, figured among the net payer countries in 2003 but, like Italy and France, contributed much less than would have been proportional to its relative economic strength (see Table 1.7).

Table 1.7

Net financial positions of member states and their relation to GNI, 2003

	Operational balance, share in GNI	GNI	GNI distribution	Operational balance	Operational balance distribution	Deviation of GNI from operational balance shares
	in %	EUR mn	in % **(1)**	EUR mn	in % **(2)**	in % points **(1)-(2)**
Net payer MS						
Netherlands	-0.40	482,368.0	5.80	- 1942.2	11.36	**- 5.56**
Sweden	-0.35	272,043.4	3.27	- 945.6	5.53	**- 2.26**
Germany	-0.35	2,145,770.0	25.79	- 7605.4	44.48	**- 18.69**
Belgium	-0.28	278,446.2	3.35	- 779.7	4.56	**- 1.21**
Luxembourg	-0.28	20,710.4	0.25	- 57.2	0.33	**- 0.09**
Austria	-0.15	224,213.2	2.69	- 330.9	1.94	**0.76**
UK	-0.14	1,637,217.3	19.68	- 2364.9	13.83	**5.84**
Denmark	-0.12	187,347.1	2.25	- 220.0	1.29	**0.96**
France	-0.12	1,604,682.0	19.28	- 1976.1	11.56	**7.73**
Italy	-0.06	1,324,398.6	15.92	- 849.8	4.97	**10.95**
Finland	-0.02	143,880.0	1.73	- 26.7	0.16	**1.57**
Total		*8,321,076.1*	*100.00*	*- 17,098.6*	*100.00*	
Net beneficiary MS						
Portugal	2.55	136,255.9	11.53	3,476.3	20.33	**- 8.80**
Greece	2.18	153,888.2	13.02	3,358.3	19.64	**- 6.62**
Ireland	1.32	118,522.0	10.03	1559.0	9.12	**0.91**
Spain	1.13	773,449.0	65.43	8704.9	50.91	**14.52**
Total		*1,182,115.1*	*100.00*	*17,098.6*	*100.00*	

Source: European Commission (2007), Annex 5, p. 63; own calculations.

In 2006 two member states among the 11 net payers contributed to the EU budget well above their relative economic strength (see Table 1.8). One was Germany, as in both 1997 and 2003; the other was the Netherlands, which got into an extreme situation by 2006, participating in total net contributions of net payer member states to the EU budget by 14% while having a share of less than 6% in total GNI of the very same countries. The deviation of Germany’s GNI from its net financial position is roughly the same in percentage points as that of the Netherlands, but Germany, being a much larger economy than the Netherlands, has a less striking relation between its share in aggregate GNI (25%) and aggregate financial position of the net payer countries (34%). In the group of net payer member states there were two countries with substantial negative deviation, contributing to the EU budget less than justified by their economic strength alone. These were Italy and

the UK, the latter participating with close to 21% in the aggregate GNI and only 12% in summarized net contributions by the net payer member states.

Table 1.8

Net financial positions of member states and their relation to GNI, 2006

	Operational balance, share in GNI	GNI	GNI distribution	Operational balance	Operational balance distribution	Deviation of GNI from operational balance shares
	in %	EUR mn	in % **(1)**	EUR mn	in % **(2)**	in % points **(1)-(2)**
Net payer MS						
Netherlands	-0.47	547,889.0	5.85	-2,589.2	14.02	**- 8.17**
Sweden	-0.28	307,477.6	3.29	-857.4	4.64	**- 1.36**
Germany	-0.27	2,318,830.0	24.78	-6,331.2	34.29	**- 9.51**
Belgium	-0.23	315,646.2	3.37	-710.9	3.85	**- 0.48**
Denmark	-0.23	222,583.3	2.38	-505.9	2.74	**- 0.36**
France	-0.17	1,799,872.2	19.23	-3,017.8	16.34	**2.89**
Finland	-0.14	168,641.0	1.80	-241.5	1.31	**0.49**
Austria	-0.12	253,851.8	2.71	-302.2	1.64	**1.08**
Italy	-0.12	1,471,384.3	15.72	-1,735.9	9.40	**6.32**
Luxembourg	-0.11	27,504.8	0.29	-30.2	0.16	**0.13**
UK	-0.11	1,924,153.3	20.56	-2,143.6	11.61	**8.95**
Total		9,357,833.4	100.00	-18,465.7	100.00	
Net beneficiary MS						
Greece	2.68	190,092.4	9.30	5,101.7	27.63	**- 18.32**
Lithuania	2.52	23,180.2	1.13	585.3	3.17	**- 2.03**
Malta	2.09	4,827.8	0.24	100.9	0.55	**- 0.31**
Latvia	1.63	15,721.4	0.77	255.5	1.38	**- 0.61**
Portugal	1.54	149,111.8	7.30	2,291.3	12.41	**- 5.11**
Estonia	1.40	12,569.5	0.62	176.4	0.96	**- 0.34**
Hungary	1.35	82,797.5	4.05	1,114.8	6.04	**- 1.98**
Poland	1.16	259,104.2	12.68	2,996.8	16.23	**- 3.55**
Slovakia	0.76	42,611.1	2.09	323.1	1.75	**0.34**
Cyprus	0.73	14,050.5	0.69	102.3	0.55	**0.13**
Ireland	0.71	151,407.9	7.41	1,080.1	5.85	**1.56**
Slovenia	0.49	29,376.2	1.44	142.7	0.77	**0.66**
Spain	0.40	960,842.0	47.03	3,808.8	20.63	**26.40**
Czech Republic	0.36	107,477.0	5.26	385.9	2.09	**3.17**
Total		2,043,169.5	100.00	18,465.7	100.00	

Source: European Commission (2007), Annex 5, p. 63; own calculations.

Deviations on the side of the net beneficiary member states are easier to interpret. In 1997 it can be clearly seen that the four cohesion countries of the pre-enlargement era are the privileged beneficiaries of transfers from the EU budget (see Table 1.6). They had a much

higher share in the total net transfers from the EU budget compared to their share in the same countries' aggregate GNI than Denmark, Finland and the UK, which only had a minimal share in total net transfers.

In 2003 we have only the four cohesion countries in the group of net beneficiaries, and Greece and especially Portugal had a substantially favourable position while Ireland and Spain received less in transfers than would have been justified merely on the basis of their relative economic strength. (see Table 1.7).

In 2006 there is a completely new situation, with 14 net beneficiary countries, of which 10 are new members in the process of 'phasing in' and also struggling with absorption problems (see Table 1.8). No wonder that experienced 'old' cohesion countries Portugal and Greece still have privileged positions; Spain, meanwhile successfully catching up, and especially Ireland received less in transfers proportionally than their share in the aggregate GNI would have justified. Among the new member states, Lithuania, Malta and Latvia managed to attain twice as large a share in the aggregate transfers for this group of member states than in the aggregate GNI of the same group. On the other extreme, the Czech Republic's position was surprisingly weak.

1.4 Smaller net redistribution in a bigger EU

Approximately one per cent of the EU GNI is redistributed through the EU budget. This is the *gross redistribution* across member states. While each member state contributes to the budget roughly proportionally to its economic strength, the allocation of expenditures favours certain member states and disfavours others. Still, each member state is a beneficiary of one or more expenditure programmes; therefore, only a part of the total finances flowing through the EU budget are really redistributed from the group of net payers to the group of net beneficiaries. *Net financial redistribution* can be calculated as the sum of net payer member states' contributions to the EU budget less the transfers these member states receive. This will be equal to the sum that net beneficiary member states receive in transfers, minus what they contribute to the EU budget. From Tables 1.6 to 1.8 we can clearly see the subtotals for the group of net payers and beneficiaries. Table 1.9 summarizes these figures for 1997, 2003 and 2006 and demonstrates the relative significance of these sums through comparing them to the aggregate EU GNI in the years concerned. The figures in this table show that the *net redistribution* amounts to only about a fifth of the gross redistribution. The 'price of solidarity' in financial terms is equal to about one fifth of a per cent of the aggregate EU GNI. The really interesting information, however, is that net redistribution has *diminished* in the last ten years (from 0.22% in 1997 to 0.16% to 2006), despite the fact that meanwhile the EU has gone through an enlargement process bringing in ten new members, all of them joining the group of net beneficiary member states. The reason is that while the EU's GNI increased by 54% between 1997 and 2006,

the value of net redistributed GNI grew only by 16%, both in current prices. But this (for the beneficiary member states) undeniably rosy picture will fundamentally change by 2013.

Table 1.9

Net redistribution in the EU through the budget in selected years

	1997	2003	2006
Total EU GNI, EUR million	7,388,285	9,503,191	11,401,003
Net redistributed GNI*	15,909	17,099	18,466
Total net redistribution in of the EU GNI %	0.22	0.18	0.16

*Contributions of net payer member states to the EU budget less the transfers they received, that is equal with the transfers for net beneficiary member states fro the EU budget less their contributions to the EU budget.

Source: GNI: Eurostat, other data: European Commission (2007), Annex 5; own calculations.

1.5 Estimated net financial positions in 2013

The Commission has not published estimations on the cross member state allocation of total expenditures for the period 2007-2013. Data for pre-allocated expenditures exist, however, for expenditures on direct payments for farmers, rural development and structural policies.[17] The total sum for expenditure commitments in 2007-2013 is available as well.[18]

Administration expenditures are excluded from the calculation of operative balances (net financial positions). The expenditures of the EU as a global partner are spent outside the EU. Thus, these two items can be labelled together as expenditures *not allocated* across member states. As data are available for aggregate expenditures under the headings Competitiveness and Citizenship, etc., a position can be created for expenditures that are *not pre-allocated* across countries but which *will be allocated later*. This position is not complete, however, without the expenditures for market intervention in agriculture and those environmental expenditures which will be accounted for under Heading 2 (Preservation and Management of Natural Resources). These also belong to the items to be allocated across member states later. For the estimation, we need aggregate data that can be obtained through calculating the difference between all 'other' expenditure positions from the total expenditures, which are also known. At the end of this exercise we have three different types of expenditures in the EU budget:

- pre-allocated expenditures,
- other expenditures to be allocated later and

[17] Structural expenditures: www.ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-verso.pdf, agricultural expenditures: *AgraFood East Europe*, No. 292, January 2007; and http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_rural_devt_2007-2013_en.pdf; http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_fisheries_2007-2013_en.pdf

[18] European Council (2007), p. 3.

- other expenditures not allocated across member states (or left out of calculating the net financial position of individual member states).

Table 1.10 shows the steps of the calculation.

Table 1.10

Expenditures form the EU budget in 2013

In 2004 prices

	2004 prices	**in %**
Agriculture (DP+RD)	47,624	
Structural operations	45,239	
Total pre-allocated expenditures (A)	**92,862**	
Competitiveness (b1)	12,961	
Citizenship (b2)	1,998	
Market intervention in agriculture; environment (b3) =D-(A+b1+b2+C)	3,631	
Other exp. to be allocated for MS (B)=(b1+b2+b3)	**18,590**	
Total exp. allocated for MS (A+B)	**111,452**	
A/(A+B) in %		**83.3**
EU as a global player	8,029	
Administration (c1)	7,610	
Other exp. not allocated for MS (C)	**15,639**	
Total expenditures (D)=A+B+C	**127,091**	
Total exp. less Other exp. to be allocated for MS and Admin. (G)=D-(B+c1)	**100,891**	
Pre-allocated exp. as a % of total expenditures: A/D		**73.1**
Coefficient for the reduction of MS contributions: G/D		**0.79**

Note: DP= direct payments; RD= rural development.

Source: Structural expenditures: www.ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-verso.pdf; agricultural expenditures: AgraFood East Europe, No. 292, January 2007; and http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_rural_devt_2007-2013_en.pdf; http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_fisheries_2007-2013_en.pdf; own calculations based on European Council (2007), p. 3.

Pre-allocated expenditures make up 83.3% of the expenditures that have already been or will eventually be allocated across member states. This pre-allocated sum is the starting point for the estimation of the net positions in 2013 (see Table 1.11). Since no guidance is available that would enable us to estimate the cross member state allocation of ‘other expenditures to be allocated later’, it is assumed that these expenditures will be allocated proportionally to member state GNI; therefore they do not influence the *relative* net financial positions.

On the revenue side, the starting point is that the member states will pay approximately 1% of their GNI to the EU budget, as was the case in the past. Nevertheless, as only 83.3% of

the total allocated expenditures is involved in the estimation, the contributions to cover the expenditures will have to be diminished accordingly. The contributions (1% of member state GNI) will be diminished by the value of expenditures to be allocated later and the expenditures for administration. Both items will thus be omitted both on the expenditure and on the revenue sides of the estimated EU budget. The value of the expenditure item 'The EU as global partner' was not derived from the contributions because it will have to be financed by the member states even if it will be spent outside the EU and thus will not be allocated as an expenditure across the member states. As Table 1.13 illustrates, instead of 1% only 0.794% of member state GNI will be taken into consideration in the estimation of the net financial positions of member states in 2013.

Table 1.11

Estimated partial* per capita expenditures from the EU budget in the member states in 2013

Net payer MS	EUR per capita	Net beneficiary MS	EUR per capita
Denmark	222	Estonia	639
Finland	203	Hungary	606
France	182	Czech Republic	549
Austria	178	Lithuania	548
Italy	161	Slovakia	502
Sweden	143	Latvia	499
Germany	131	Greece	487
Luxembourg	128	Slovenia	452
UK	95	Poland	424
Belgium	90	Portugal	411
Netherlands	74	Ireland	407
		Malta	357
		Bulgaria	298
		Romania	295
		Spain	233
		Cyprus	152

* Structural operations, Agriculture (direct payments, rural development and fisheries, without market intervention)

Source: Structural expenditures: www.ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-verso.pdf; agricultural expenditures: AgraFood East Europe, No. 292, January 2007; and http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_rural_devt_2007-2013_en.pdf; http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_fisheries_2007-2013_en.pdf; own calculations.

Table 1.14 shows the estimated net financial positions in 2013 per capita, Table 1.15 in absolute terms and Table 1.16 as a percentage of member state GNI. All these calculations, however, are without taking into consideration the UK rebate which, even if to a reduced extent, will still be in place in 2013; further, of the long list of exceptions reviewed at the end of this chapter, only the reduction in the own resources contribution by Sweden and the Netherlands were taken into consideration. That means that the figures presented

in the tables concerned represent a rudimentary approximation of the real life net financial positions 2013.

Table 1.12

Estimated GNI of the EU member states in 2013

	GNI EUR million	Population (2006) million persons
Austria	340,596	8.3
Belgium	424,162	10.5
Cyprus	23,112	0.8
Czech Republic	175,675	10.3
Denmark	298,582	5.4
Estonia	24,137	1.3
Finland	224,635	5.3
France	2,415,664	63.1
Germany	3,136,055	82.4
Greece	254,286	11.1
Hungary	128,786	10.1
Ireland	201,306	4.3
Italy	1,968,265	58.8
Latvia	29,789	2.3
Lithuania	42,613	3.4
Luxembourg	37,059	0.5
Malta	6,522	0.4
Netherlands	726,524	16.3
Poland	427,990	38.1
Portugal	200,852	10.6
Slovak Republic	73,880	5.4
Slovenia	48,924	2.0
Spain	1,289,865	44.1
Sweden	410,780	9.1
United Kingdom	2,588,202	60.6
Bulgaria	43,505	7.7
Romania	161,013	21.6

Source: GNI: own estimation, for details see Annex 1; population: Eurostat.

Nevertheless, the consequences of the UK rebate are considerable. While the position of the UK will be substantially better than indicated in the estimations, the net financial position of the rest of the net payer member states and also that of the net beneficiary member states will be worse than that displayed in the tables, as they all have to participate in financing the UK rebate. Possible exemptions are the Netherlands and Sweden, which will have to pay less to the EU budget[19] and whose contributions to financing the UK rebate are also reduced (to 25% of the sum they would have to pay if the

[19] Due to an exemption agreed upon in the December 2005 European Council for the two countries concerned, there will be a reduction in their contributions amounting to EUR 721 million and EUR 179 million, respectively, in 2013 prices.

burdens of financing the UK rebate were allocated proportionally to the member states' GNI). Eventually their position may even improve compared to a situation without the UK rebate. The positions of Germany and Austria will deteriorate only to a limited extent, due to their rebate on the UK rebate (25% of the originally calculated burden).

Table 1.13

0.794% of the estimated 2013 GNI, per capita

Net payer member states	EUR per capita	Net beneficiary member states	EUR per capita
Denmark	436.1	Estonia	142.8
Finland	338.7	Hungary	101.6
France	303.9	Czech Republic	135.8
Austria	326.6	Lithuania	99.7
Italy	265.6	Slovakia	108.8
Sweden	359.1	Latvia	103.4
Germany	302.3	Greece	181.1
Luxembourg	637.0	Slovenia	193.6
UK	339.4	Poland	89.1
Belgium	319.5	Portugal	150.6
Netherlands	353.0	Ireland	374.5
		Malta	127.6
		Bulgaria	44.9
		Romania	59.2
		Spain	232.1
		Cyprus	237.9

Source GNI: own estimation, for details see Annex 1; population: Eurostat.

Table 1.14

Estimated per capita net financial position, 2013, without UK rebate

Net payer member states	EUR per capita	Net beneficiary member states	EUR per capita
Luxembourg	-509.5	Hungary	504.2
Netherlands	-278.6	Estonia	496.3
UK	-244.4	Lithuania	448.0
Denmark	-214.4	Czech Republic	413.5
Belgium	-229.9	Latvia	396.1
Sweden	-216.3	Slovakia	393.1
Germany	-171.3	Poland	335.1
Austria	-148.7	Greece	306.2
Finland	-135.6	Portugal	260.1
France	-122.1	Bulgaria	253.4
Italy	-104.7	Slovenia	258.3
Cyprus	-86.1	Romania	235.3
		Malta	229.8
		Ireland	32.6
		Spain	0.7

Source: Own calculations based on Tables 1.11, 1.12, and 1.13.

Table 1.16 shows a pre-UK-rebate situation in which Belgium and Luxembourg are already around -0.6% of the GNI net position, and that will be worse after the application of the UK rebate. But as explained earlier, these two member states are more than compensated for this loss as absorbers of huge administration expenditures which are left out of the calculation of the net financial positions. The UK position will be around -0.3% to -0.4% of GNI if we take it as given that in 2013 definitely less than two thirds of its net financial position will be returned.

Table 1.15

Net financial position, 2013, without UK rebate

Net payer member states	EUR million	After the one-off reduction	Net beneficiary member states	EUR million
Luxembourg	-235.3		Hungary	5,075.5
Netherlands	-4,551.7	-3,830.7	Estonia	666.2
UK	-14,797.0		Lithuania	1,520.7
Denmark	-1,165.5		Czech Republic	4,246.5
Belgium	-2,423.1		Latvia	906.0
Sweden	-1,964.5	-1,785.5	Slovakia	2,119.0
Germany	-14,111.8		Poland	12,778.5
Austria	-1,231.5		Greece	3,413.0
Finland	-713.9		Portugal	2,754.3
France	-7,705.3		Bulgaria	1,949.3
Italy	-6,161.7		Slovenia	518.4
Cyprus	-66.4		Romania	5,080.4
			Malta	93.3
			Ireland	139.1
			Spain	32.3

Source: Own calculations based on Tables 1.11, 1.12 and 1.13.

All in all, due to the uncertainties, we should regard these figures as a rough approximation of the real-life net financial positions in 2013. With this in mind and thinking in a relatively wide range of possible net financial positions after taking into consideration the UK rebate, we may afford the prediction that the member states which bear the main burden of the cross member states redistribution (Netherlands, Germany, Sweden, Denmark, Austria, Finland, France, Italy and, surprisingly, Cyprus) will have net financial positions between -0.30% and -0.55% of their GNI; within this group the Netherlands, Germany, Sweden and Denmark will have positions between -0.40 and -0.55%, while Austria, Finland, Italy, France and Cyprus will be between -0.30% and -0.40% (see Figure 1.1). Ireland and Spain, which are among the net beneficiaries with a marginal estimated surplus in 2013, calculated without the UK rebate, will become marginal net payers after the application of the UK rebate, in the magnitude of 0.00% (Ireland) and -0.06% (Spain) of their GNI.[20]

[20] This is the result of a recalculation of these two countries' net financial positions after subtracting the sum they paid as financing of the UK rebate in 2006. This may be higher due to inflation, but it may also less due to a change in the calculation method.

The estimated net financial positions of the net payer member states for 2013 after the application of the UK rebate resembles the situation in 1997. In that year Germany, Sweden and Austria were in the group of -0.40 to -0.55% net financial positions (see Table 1.6). In 2013, however, all other net payers will be in a worse position than in 1997, and some of the (marginal) net beneficiaries in 1997 (Denmark, Finland and UK) will become important net payer members.

Table 1.16

Net financial position in % of GNI, 2013, without UK rebate

Net payer member states	**Net financial position in % of GNI**	**After the one-off reduction**	**Net beneficiary member states**	**Net financial position in % of GNI**
Luxembourg	-0.64		Bulgaria	4.48
Netherlands	-0.63	-0.53	Hungary	3.94
UK	-0.57		Lithuania	3.57
Belgium	-0.57		Romania	3.16
Sweden	-0.48	-0.43	Latvia	3.04
Germany	-0.45		Poland	2.99
Denmark	-0.39		Slovakia	2.87
Austria	-0.36		Estonia	2.76
Finland	-0.32		Czech Republic	2.42
France	-0.32		Malta	1.43
Italy	-0.31		Portugal	1.37
Cyprus	-0.29		Greece	1.34
			Slovenia	1.06
			Ireland	0.07
			Spain	0.00

Source: Own calculations based on Tables 1.11, 1.12 and 1.13.

In 2006, the third year of the enlargement, only the Netherlands was in a comparably difficult net financial position to that expected for the group of member states with net financial positions from -0.40 to -0.55% in 2013. In 2006 not even one member state fell into the category with net financial positions from -0.30% to -0.40%, which means that all net payer member states (except the Netherlands) will suffer a substantial deterioration of their net financial positions. It will be especially grave for Austria, Belgium, France, Finland, Italy, Luxemburg and the UK, where the negative net financial positions will be at least twice as high as in 2006. From a political economy approach it will be decisive which year we choose for the basis of comparison. If one opts for 2006, there is a serious deterioration to report in 2013. However, compared to 1997, nothing special will happen in 2013; only 12 member states will take over a relative burden comparable to that assumed by 5 member states in 1997. Moreover, they were prepared to take over this burden when ‘poor’ member states like Denmark, Finland and the UK were among the net beneficiaries.

As far as the net beneficiary member states are concerned, it is clear that the new members of 2004 will achieve a much better net financial position in 2013 than they achieved in 2006, when they were, in terms of payment appropriations, still in the middle of phasing in, with relatively weak absorption. The best-positioned three net beneficiary member states in 2013 (Bulgaria, Hungary, Lithuania) will receive approximately as much in net transfers (+3.5% to +4.5% of their GNI) from the EU budget proportionally to their GNI as Ireland and Greece received in the good old times back in 1997. Both in 2003 and 2006, the top positive net financial positions of the beneficiary member states were more modest than in either 1997 or 2013. It is remarkable that of the relatively underdeveloped new members (9 countries) 6 will, even in 2013, be in a substantially worse net financial position (2.40% to 3.00%) than Ireland and Greece were in 1997. The important message of all these figures is that the situation which will emerge by 2013, a year when the phasing in will be nearly completed[21], will be *grosso modo* not worse for the net payer member states and not better for the net beneficiary countries than it was in the year 1997, well before the enlargement. While in 2013 more net payer countries will have to be burdened by the top rate for contributions to the EU budget, none of the net payer member states will have to undertake a higher relative burden than the top relative burden was in 1997. Moreover, the best beneficiary net financial positions relative to the recipients' GNI rates will not be higher than they were in 1997. If the cross member state redistribution within the EU was manageable without major scandals back in 1997, it will have to be manageable in 2013 as well.

[21] Phasing-in of direct payments for Bulgaria and Romania will not be completed until 2016.

Figure 1.1

Estimated net financial position of member states in 2013 (with the UK rebate) in % of member state GNI

from -0.70 to -0.55	from -0.55 to -0.40	from -0.40 to -0.30	from -0.10 to 0.00	from +1.0 to +1.4	from +2.3 to +3.0	from +3.5 to +4.5
Belgium	Denmark	Cyprus	Ireland	Greece	Czech Republic	Bulgaria
Luxemburg	Germany	Finland	Spain	Malta	Estonia	Hungary
	Netherlands	France		Portugal	Latvia	Lithuania
	Sweden	Italy		Slovenia	Poland	
					Romania	
	Austria?	Austria?			Slovakia	
	UK?	UK?				

Source: Own estimation based on Table 1.16.

1.6 Budgetary 'juste retour' in the context of non-budgetary gains from European integration

On a conceptual level there has always been strong resistance, both in official documents of the EU and in declarations by top politicians in the MS, against the interpretation of the net financial position as an indicator or measuring rod of advantages or disadvantages a member state 'enjoys' through its membership in the EU. As already mentioned, until as late as 1994, the Commission's reluctance to talk about redistribution in the Union went so far that it refrained from publishing details of the allocation of revenues/expenditures across member states.

There are two main lines of arguments to support this attitude: first, that net financial position is not a suitable basis for the assessment of benefits from EU membership, and second, that if there were a consensus on the ways of financing the EU budget and on the ways of allocating the expenditures by tasks, principally there might be no room left for discussion on the result.

Let us discuss the first argument in more detail. 'Budgetary balances, while appealing in their simplicity, either invariably misrepresent or are inadequate measures of the benefits from membership in the EU'.[22] There are important advantages from EU membership beyond the financial flows in relation with the EU budget, such as those arising from trade liberalization or free movement of capital and labour. Not only recipients of transfers from the EU budget benefit from these flows; the expenditures concerned are often spent to finance imports of goods and services from other member states. The example of the 'old' cohesion countries shows that around one fourth (in the case of Greece 42% and Portugal 35%) of structural policy transfers are spent on imports – typically from highly developed EU member states.[23]

Several EU policies have positive externalities with spill-over effects transcending national borders. Often, ultimate beneficiaries of EU transfers are located in another member state than that accounting for the given expenditure, as in the case of the CAP spending on export restitution. This is the case in research expenditures for multinational consortia, too.

In a more detailed analysis of 2006 trade and FDI data, we will place the problem of net financial position into a broader context, and then two non EU members' quasi 'net financial positions' will be addressed.

Trade

In 2006, each of the 11 net payer member states (except for Belgium) had a surplus in foreign trade with the group of net beneficiary member states, consisting of 14 countries

[22] Commission (1998), Annex 3, p. 1.

[23] European Commission (2004c), p. XVII.

(see Table 1.17) Individual trade balances also are calculated relative to the reporting country's GNI in per cent. 10 of the 11 net payer member states had a higher trade surplus, relative to their GNI, with the group of the net beneficiary member states than their 'deficit' vis-à-vis the EU budget, again relative to their GNI. In the case of the major net payer member states, Austria's trade surplus was nearly 19 times as high as its net contribution to the EU budget. In the case of the Netherlands and Germany, the differences also were enormous, more than seven and sixfold, respectively. Altogether, the group of net payer member states achieved a surplus in trade with the group of net beneficiary member states that was close to six times as high as the sum of their 'loss' due to the fact that they paid more to the EU budget than they received.

Table 1.17

Trade balance of net payer member states with the group of net beneficiary member states, 2006

Reporting member state	Trade partner member states	Trade balance, EUR mn[1)]	Trade balance in % of the reporting member state's GNI	Net financial position in % of GNI [2)]	The relation between trade balance and net financial position
			A	B	A/B*(-1)
Austria	Group of net benef.MS	5,734	2.26	-0.12	18.8
Belgium	Group of net benef.MS	-3,034	-0.96	-0.23	-4.2
Denmark	Group of net benef.MS	1,503	0.68	-0.23	2.9
Finland	Group of net benef.MS	2,103	1.25	-0.14	8.9
France	Group of net benef.MS	10,283	0.57	-0.17	3.4
Germany	Group of net benef.MS	39,688	1.71	-0.27	6.3
Italy	Group of net benef.MS	17,522	1.19	-0.12	.9
Luxembourg	Group of net benef.MS	2,120	7.71	-0.11	70.1
Netherlands	Group of net benef.MS	19,051	3.48	-0.47	7.4
Sweden	Group of net benef.MS	1,274	0.41	-0.28	1.5
UK	Group of net benef.MS	8,197	0.43	-0.11	3.9
Net payers, Total	Group of net benef.MS	104,440	1.12	-0.20	5.6

1) Calculated from trade flows as reported by net payer member states. - 2) Total is weighted average.

Source: Eurostat, own calculations.

The data of Table 1.18 display that of the net beneficiary member states only two, Ireland and Slovakia, managed to achieve a surplus in trade with the aggregate group of the net payer member states in 2006. These two countries gained both through their trade surplus and through their surplus vis-à-vis the EU budget. The other 12 net beneficiary member states had deficits in trade with the net payer member states, and all of them, except for one country, Hungary, had higher trade deficits than their 'surplus' vis-à-vis the EU budget. In the cases of Cyprus, Estonia, Malta, Slovenia and Spain, the value of deficit in trade with the group of net payer member states was more than ten times as high as the value of net

transfers from the EU budget. True, these countries are all popular tourist targets and services trade compensates for deficits in commodity trade, but the difference is still shocking. Even in the case of the rest of the net beneficiary member states (except for Slovakia, Ireland and Hungary) trade deficits are nowhere less than three times as high as the 'surplus' vis-à-vis the EU budget.

Table 1.18

Trade balance of the group of net payer member states with individual net beneficiary member states, 2006

Reporting member states	Trade partner member state	Trade balance, EUR mn[1)]	Trade balance in % of the trade partner member state's GNI	Net financial position in % of GNI [2)]	The relation between trade balance and net financial position
			A	B	A/B
Group of net payer MS	**Cyprus**	1,592	-11.33	0.73	-15.5
Group of net payer MS	**Czech Republic**	1,719	-1.60	0.36	-4.4
Group of net payer MS	**Estonia**	2,420	-19.25	1.4	-13.8
Group of net payer MS	**Hungary**	652	-0.79	1.35	-0.6
Group of net payer MS	**Latvia**	1,123	-7.14	1.63	-4.4
Group of net payer MS	**Lithuania**	2,372	-10.23	2.52	-4.1
Group of net payer MS	**Malta**	1,481	-30.67	2.09	-14.7
Group of net payer MS	**Poland**	15,690	-6.06	1.16	-5.2
Group of net payer MS	**Slovakia**	-751	1.76	0.76	2.3
Group of net payer MS	**Slovenia**	2,960	-10.08	0.49	-20.6
Group of net payer MS	**Greece**	18,780	-9.88	2.68	-3.7
Group of net payer MS	**Ireland**	-13,762	9.09	0.71	12.8
Group of net payer MS	**Portugal**	8,859	-5.94	1.54	-3.9
Group of net payer MS	**Spain**	61,304	-6.38	0.4	-16.0
Group of net payer MS	**Net beneficiaries., Total**	104,440	5.11	0.91	5.6

1) Calculated from trade flows as reported by net payer member states. - 2) Total is weighted average.

Source: Eurostat, own calculations.

Finally, the five major net payer member states and the five major net beneficiary member states were selected.[24] The former five had a trade surplus with the latter five amounting to roughly EUR 19 billion. The former five had a net 'deficit' of EUR 11 billion vis-à-vis the EU budget, the latter five a net 'surplus' of about EUR 8 billion (Table 1.19). It is an interesting coincidence that the trade surplus of the five major net payer member states with the five major net beneficiary member states (EUR 18.7 billion) is nearly exactly as much as the extent of net cross member state redistribution in the EU in the year 2006 (EUR 18.5 billion), see Table 1.9.

24 In terms of their net contributions/receipts to/from the EU budget in % of their GDP.

Table 1.19

Net financial positions and trade balance; the five biggest payer and beneficiary member states, respectively, 2006

Member states	**net financial position** EUR million	**trade balance** EUR million
5 biggest net payers		
		with 5 biggest net beneficiaries
Belgium	-711	2,741
Denmark	-506	693
Germany	-6,331	10,305
Netherlands	-2,589	4,270
Sweden	-857	672
Total	**-10,994**	**18,682**
5 biggest net beneficiaries		
		with 5 biggest net payers
Latvia	255	-1,173
Lithuania	585	-1,678
Malta	101	-257
Greece	5,102	-9,692
Portugal	2,291	-5,881
Total	**8,335**	**-18,682**

Source: Trade and GNI data: Eurostat; other data: Commission (2007), Annex 5, p. 63.

FDI

The single market, the largely unified legal environment through the *acquis communautaire,* has encouraged foreign direct investment in the member states that are beneficiaries of the cross member state redistribution in the EU. In the case of the new member states, this had already been the case years before their accession to the EU, since their accession was anticipated by the investors long before it became reality in 2004. These FDI projects have been highly profitable, and repatriation of profits has become a considerable source of financial inflow for home countries of foreign investors. We have detailed statistics of Austria and Germany in this respect, two 'old' member states gaining perhaps the most from the 2004/2007 enlargements.

In 2005, Austrian firms operating in the 10 new member states transferred EUR 933 million back to their mother companies in Austria, while profit repatriation of foreign owned companies from the new member states operating in Austria was negligible (less than EUR 9 million)[25]. For comparison, in the same year Austria's net financial position

[25] OeNB (2007), pp. 38 and 39.

amounted to EUR 278 million, roughly a third of the repatriated profits from ten of the 14 net beneficiary member states in 2006.

Germany had a ‘deficit’ amounting to EUR 6,331 million vis-à-vis the EU budget in 2006. In the same year the net repatriated profit from the net beneficiary member states amounted to EUR 6,589 million.[26]

Norway and Switzerland

That opening up the new member states’ market is worth money in measurable terms can be clearly seen from the EU’s agreements with Norway and Switzerland. Both of these non EU members enjoy all the advantages of the EU enlargement through their special arrangements. Both of them also were ready to pay for these advantages in the form of a ‘contribution to social and economic cohesion in the enlarged internal market’, namely through financing development projects in the new member states similar to those supported through transfers from the EU budget in the framework of structural operations. From 2007 on, Switzerland will pay EUR 125 million in the next five years (EUR 17 per capita); the respective contribution by Norway amounts to EUR 220 million annually (EUR 47 per capita).[27] Certainly, as non members, neither of the two countries receives anything from the EU budget. Ironically, the per capita contribution by Norway is higher than the per capita net financial position of Austria, Finland, Italy and the UK; and it is only one euro less than that of France (see Table 1.2).

To conclude, gains from integration other than those of a purely budgetary nature are indeed substantial and may compensate net payer members in a big way for losses suffered in cross member state redistribution in the EU.

1.7 If exemptions become the rule …

As discussed above, in a broader context negative net financial balances are only part of the picture and net payer member states indeed gain a lot in various fields of the enlarged Community. While this is all true, the infamous bargaining at the December 2005 European Council all focused on the net financial positions of the member states, primarily on the UK rebate, secondarily on the ways and extent of compensation of net payer countries for their further obligation to finance the UK rebate, and finally on the compensation of net beneficiary member states for the decrease of rule-based expenditures in their countries as a consequence of the UK rebate and the related compensation for nearly all net payer countries.

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[26] Own calculation based on information from the Bundesbank.

[27] www.ec.europa.eu/external_relations/switzerland/intro/index.htm; www.ec.europa.eu/external_relations/norway/intro/index.htm.

In the light of the developments, it is bizarre that in the preparatory period for the 2007-2013 financial perspectives, the Commission's proposal for the introduction of a generalized correction mechanism was rejected by some member states with reference to the unacceptability of the narrow-minded juste retour approach and the correction mechanism as a medicine for that disease.

For all those who believe that it is possible to avoid the problem of 'juste retour' if we close our eyes and act as if it did not exist, I recommend carefully reading the following list of exemptions approved in the final compromise at the December 2005 European Council.[28]

Exceptions introduced by the European Council in December 2005 on the expenditure and income sides of the budget, namely:

Earmarked for Projects

- EUR 865 million for the nuclear power plant Ignalina (LIT) and 375 million for the nuclear power plant Bohunice (SLK)
- 200 million for the peace process in Northern Ireland (UK)

Earmarked for Regions

- 879 million for five Polish Objective 2 regions (EUR 107 per citizen)
- 140 million for a Hungarian region (Közép-Magyarország)
- 200 million for Prague
- 'phasing-out' support for a Finnish Region and Madeira, which were originally 'phasing-in' regions
- 100 million for the Canary Islands
- 150 million for Austrian border regions
- 75 million for Bavaria
- 50 million for Ceuta and Melilla (ES)
- 225 million for eastern German Länder
- 136 million for the most remote regions (EUR 35 per citizen)
- 150 million for the Swedish regions in Objective 'Competitiveness and Employment'

Special funds for member states

- absorption rate for Poland raised by 4%
- 'phasing-in' support for Cyprus, despite never being an Objective 1 region
- 2,000 million for Spain, to be distributed freely among Structural Fund Objectives
- 1 400 million for Italy (predefined distribution)

[28] European Parliament (2007).

- 100 million for France (Objective: ‘Regional Competitiveness and Employment’)
- 47 million for Estonia (EUR 35 per citizen)
- 81 million for Lithuania (EUR 35 per citizen)
- additional payments from rural development:
    - 1,350 million for Austria
    - 20 million for Luxembourg
    - 460 million for Finland
    - 100 million for France
    - 500 million for Ireland
    - 820 million for Sweden
    - 500 million for Italy
    - 320 million for Portugal

Special conditions

- 50% increased support for the former exterior borders to ROM and BLG, compared to regular support for border regions
- private co-financing can be counted in for Structural Fund supported projects in new member states (per capita GDP < 85% of EU average) and eastern German Länder
- in the new member states (< 85%), VAT can be considered eligible cost for Structural Fund projects

Special conditions in legal bases

- departing from ‘n+2’ rule for new member states (< 85%) in 2007-2010
- building projects are eligible for support in the new member states (EU10 + ROM, BLG)
- 20% of funds from the first pillar (Agriculture) can be used by each country for rural development, disregarding general rules such as co-financing
- special funds for rural development in Portugal (320 million), without co-financing

Special conditions for financing the budget

- rate-of-call for VAT own resources contribution is reduced by 25% for Austria
- rate-of-call for VAT own resources contribution is reduced by 50% for Germany
- rate-of-call for VAT own resources contribution is reduced by 66% for Sweden and the Netherlands
- the Netherlands get 4 230 million (GNI ‘own-resources’)
- Sweden gets 1,050 million (GNI ‘own resources’)
- the rebate for the UK is kept, reduced by certain phased-in payments for the new member states.

2 The 'own resources' of the EU budget in the context of net financial positions

2.1 The current own resources system and earlier reform proposals

The revenue side of the EU budget currently consists of three main components: traditional own resources (TOR), VAT based revenue and GNI proportional revenue. The historically earliest source of cross member state redistribution was the traditional own resources, namely customs duties and agricultural levies. The notional VAT based resource was introduced in 1979. It is levied on the notional harmonized VAT bases of the individual member states. These statistical 'notional' VAT bases are non real tax bases; they must be calculated in order to compensate for differences in national VAT regimes due to incomplete harmonization of VAT at EU level. The notional VAT is calculated for each member state by dividing the VAT receipts by the so-called weighted average rate of VAT. The weighted average rate is derived from macroeconomic statistics (mainly national accounts). In order to arrive at a harmonized base, changes are made either to the net revenue collected ('corrections') or to the VAT base ('financial compensations').[29] The tax rate is currently 0.5% of the harmonized VAT base; if the tax base is higher than 50% of GNI, that excessive segment is exempted from taxation. In 1988 a new channel for revenues was introduced, based on a uniform rate in per cent of the member states' GNP (GNI from 2002 on) in order to better match member states' contributions to their ability to pay. In the last three years, GNI proportional revenues amounted to about 70% of total own resources of the EU budget; the rest fell, in roughly equal shares, to the notional VAT base and the traditional own resources.

In the course of the preparatory work for the 2000-2006 financial perspective discussions on a fundamental reform of the own resources system, the idea of introducing some form of European tax gained momentum.[30]

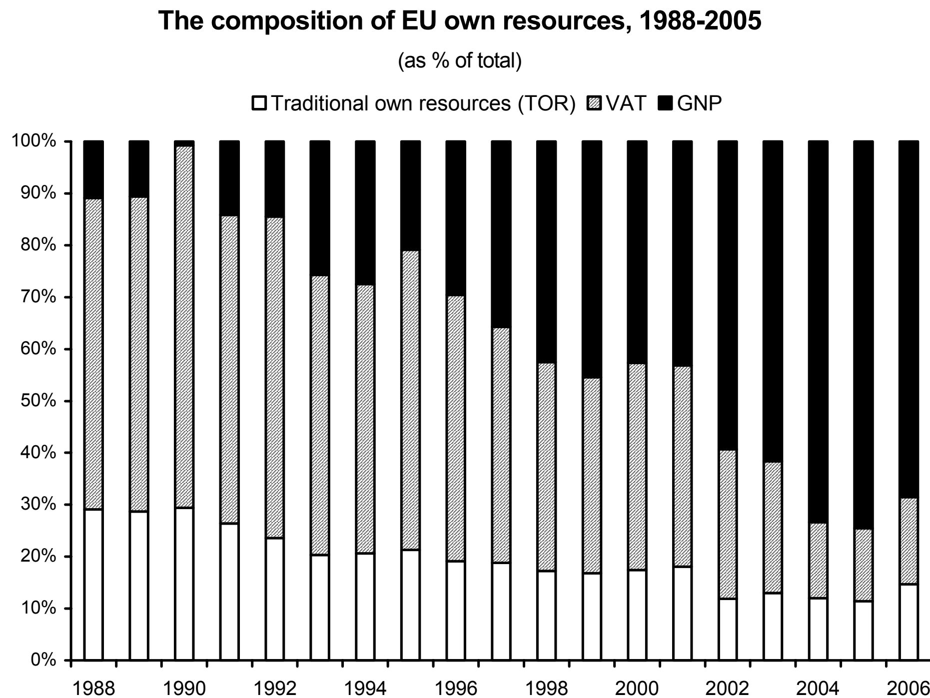
The Commission's 1998 review of the current system of the EU's own resources gave a favourable assessment for equity (fairly shared burdens, or proportionality) among member states, which increased over the years parallel to the growing importance of the GNP/GNI-based contribution. The system was also found to operate adequately in terms of providing the necessary resources to finance EU expenditures. Nevertheless, the system was evaluated as being of poor efficiency in the political and budget process. The main shortcomings identified were

- lack of financial autonomy,
- *ad hoc* features and interventions, such as the correction mechanism for the UK, and
- lack of transparency in the financial relationship between the member states and the EU budget.

[29] European Commission (2004a), p. 6.

[30] The review of the evolution of the own resources system relies on European Commission (1998), Appendix 1, and European Commission (1997a).

Figure 2.1



Source: Data for 1988-1995: European Commission (1998), p. 2; data for 1996-2005: European Commission (2004a), p. 8. Data for 2006 (without other revenue): European Commission (2007), p. 30.

The role of the only true 'own resources' component in the current system of revenues, namely the 'traditional own resources', has been shrinking continuously, thus increasing the problems deriving from a lack of financial autonomy. The Commission found that the growing importance of transfers from the national budgets compelled member states 'to seek to maximize ill-defined concepts of the national benefits from the EU budget'[31], and this entangles EU budgetary issues with domestic financial and fiscal problems, obscuring for the citizens the EU-wide priorities at stake.

The 1998 European Commission paper saw three options for modifications of the system of contributions to the EU budget:[32]

- simplification of the system through a reduction of the number of financing sources;
- introduction of new own resources in addition to the existing ones;
- introduction of new own resources as a replacement of (one or more of) the existing ones.

With no feasible outcome whatever resulting from these discussions, a new wave of debates started in 2004, now related to the forthcoming 2007-2013 financial

[31] European Commission (1998), p. 9.

[32] European Commission (1998), p. 10.

perspectives.[33] The preparatory work for the Financial Perspective 2007-2013 and the related consultations and political declarations[34] made it clear that the 2004 enlargement by ten new members and the subsequent increase in differences as to the level of development within the enlarged Union[35] would bring about an unprecedented climax of conflicts over the size of the budget and the budgetary balances reflecting the narrow 'juste retour' stance of the old member states. With these debates in mind, the 2004 Commission Report on the financing of the European Union presented more radical options for finding the optimal system of contributions to the EU budget:

- maintaining the present system unchanged;
- introduction of a purely GNI-based system;
- introduction of a system based on fiscal own resources.

At the 15/16 December European Council last year, the first option was chosen and – besides maintaining the UK rebate and the concessions for four member states for financing the UK rebate – further *ad hoc* measures were taken in order to arrive at a compromise that was acceptable to all 25 member states.[36] By these latest improvisations, the original philosophy of the EU budget of practising solidarity among member states through the expenditure side of the EU budget and not on the revenue side[37] has been distorted beyond recognition.[38]

2.2 Reform options to be addressed at the 2008/2009 revision

The planned revision of the EU budget in 2008/2009 will be strongly motivated to depart from the present own resources system. In that case, two basic options will remain: the *purely GNI-based* system and the *fiscal-based* own resources system, this latter option in several variations.[39]

The *purely GNI-based system* is unbeatable in terms of equity at member state level, since the contributions would precisely correspond to the relative prosperity of the individual member states. Operation costs would be minimal, sufficiency and stability within the agreed own resources would be guaranteed. In 2004 Finland put forward a proposal for a reform that would leave in place traditional own resources while all other resources would be delivered by the GNI component.[40] Two main problems, however, are mentioned in the 2004

[33] European Commission (2004a), European Commission (2004b), Cattoir (2004).

[34] Joint letter (2003).

[35] Richter (2005), pp. 74-85.

[36] European Council (2005).

[37] European Commission (1998), p. i.

[38] See the list of exemptions in section 1.7.

[39] For a more detailed discussion see Richter (2008).

[40] European Parliament (2007), p. 7.

Commission paper related to this option: first, that the 'status of the EU as a Union of member states *and* citizens would be abandoned'[41], and second, the 'juste retour' approach by member states would be brought to the forefront of debates even more than at present.

The second option is securing own resources through an EU tax. The proposals raised can be allocated to three groups: income taxes, taxes on real economy transactions and taxes on financial transactions.[42]

- **Income taxes**

Personal income tax

One option for this tax would be a surcharge on the member states' personal income tax.[43] The progressiveness introduced by individual member states would be preserved. Still, the considerable differences in tax base and rules in individual member states' personal income tax would necessitate harmonization or complicated equalizing calculations. The alternative option is an independent EU personal income tax. EU citizens would fill in two separate tax returns, one for the EU and one for their own country's tax authorities. The tax base and rate would be defined by the EU.

Corporate income tax

The European Union corporate income tax (EUCIT) would be considered a serious candidate for an EU tax if a common consolidated tax base were already established or seemed available in the medium term. [44] That would create the precondition for an applicable unified tax rate set at the EU level. The EU tax would replace the national corporate taxes, though autonomous surcharges could be levied by individual member states. Contrary to VAT, where an approximation of the tax rates has already been achieved, attempts towards an approximation of the corporate tax base have been vehemently opposed by some member states.

Withholding tax on interest income

In some member states, savings and capital income of non-residents is taxed, while there is no such tax in other EU members. [45] This difference leads to capital flows to the lowest

[41] European Commission (2004a), p. 42.

[42] A working paper of the Directorate-General Taxation & Customs Union distinguishes nine possible options for this tax. Cattoir (2004). An additional one was adapted from a 1998 publication of the European Commission: European Commission (1998), Annex 2.

[43] For a more detailed discussion see Cattoir (2004).

[44] First raised by the European Parliament (European Parliament, 1990).

[45] This was a proposal for a Directive to ensure a minimum of taxation on interest income paid in a member state to a beneficiary in another member state, in European Commission (1998), Annex 2, pp. 20 and 27.

tax jurisdiction, with the potential to trigger a harmful tax competition. A minimum of effective taxation of interest and dividend income introduced in the individual member states for non-resident member state beneficiaries would create own resources for the EU budget and, parallel to this, would help avoid misallocation of resources. However, the tax base is far from being harmonized across member states. The tax would considerably influence the global competitiveness of international financial centres located within the EU.

Transfer of seigniorage revenue

Seigniorage in a monetary union can be seen as a common good of member states with a common currency. This would make seigniorage a good candidate for an own resource for the EU budget – but only if all EU members, and not merely 13 countries, were members of the Eurozone.[46] Further, the national central banks have various sorts of revenues beyond seigniorage and very different cost and income structures. The loss of seigniorage to the EU budget could have a profound impact on the national central banks, leading to forced adjustment in their revenues and costs structures that would imply political problems in several member states.

- ***Taxes on real economy transactions***

Genuine VAT

Genuine VAT is basically different from the currently applied 'notional VAT'-based contribution.[47] While the latter is levied on a calculated VAT base, the genuine VAT-based contribution would rely on a real VAT base (after being harmonized across member states). VAT rates would be combined (national and EU, respectively) in each member state. The total combined VAT rate should not be higher than it was prior to the changeover to the new system, as the 'national' rates could be decreased as a consequence of the elimination of pre-changeover contributions (nominal VAT and GNI-based) to the EU.

Taxation of energy

Here two options are possible: a *broad-based* energy tax and a *narrower* one on motor fuel used for transport.[48] The former would include mineral oil, electricity, coal and natural gas. The latter would consist of a tax on leaded and unleaded petrol, diesel, kerosene, liquefied petroleum gas (LPG) and natural gas for transport. The tax would be collected not from the final consumer but one stage earlier, when the products are delivered for consumption. An important advantage of this proposal is that since 1 January 2004 a valid taxation directive

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[46] The idea was raised in the course of the preparations for the introduction of the common currency for the EU.

[47] The idea was advocated by the European Parliament. European Parliament (1994).

[48] First recommended in 1992 by the European Commission; the most recent proposal was put forward in European Commission (1997b).

on energy has been in force. The directive involves the harmonization of the tax base for various sorts of energy and sets out EU-wide minimum tax rates.

Communication taxation

A tax on communication services could include road and air transport, and various forms of telecommunication and broadcasting.[49] The European Parliament narrowed the choice to three candidates: a tax as a fixed amount per telephone line paid by consumers; a tax on road transport in the form of a harmonized vehicle tax; and a per capita tax on air travellers. Any of these proposals requires either tax harmonization or the creation of new taxes besides already existing ones.

Climate charge on aviation

This proposal ties the aim of environment protection to the financing of the EU budget.[50] The tax would be levied on carbon dioxide and nitrogen oxide (both greenhouse gases) emissions of aircraft. It could be based either on an *ex ante* profile derived from performance manuals or on *ex post* criteria derived from recorded actual flight data.

Excise duties on tobacco and alcohol

In the European Union tobacco, alcohol and mineral oils are subject to excise duties; here, only alcohol and tobacco are addressed. Various directives regulate the excise rates on these two commodity groups. This existing regulation could help transform the system into an own resource of the EU budget.[51] After removing still existing exemptions and derogations, the EU would define a minimum rate levied on a harmonized tax base. Member states would be allowed to levy additional rates if they wished to do so.

- ***Tax on financial transactions***

Tax on stock exchange transactions

The tax would be levied on transactions of shares and bonds or of shares only. [52] Similarly to currently imposed taxes in several of the stock markets in the EU, it would be charged on the value of transactions. With regard to the high degree of internalization of capital markets and the mobility of capital flows, the danger of displacement of financial investments is significant. It is therefore difficult to foresee the potentially available revenues.

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[49] Proposed by Begg, Grimwade and Price (1997), analysed in detail by the European Parliament (1997).

[50] European Commission (2001).

[51] Proposed in European Parliament (1994) and in European Commission (1997a).

[52] Cattoir (2004), p. 33.

Tax on foreign exchange transactions

The idea of an EU-wide tax on *foreign exchange transactions* as a new own resource of the EU budget has been raised repeatedly in the past few years. The original idea of a *global* tax on foreign exchange transactions was first raised by the US economist James Tobin in 1972.[53] Currently only a fragment of foreign exchange transactions are directly related to real economy transactions such as trade and foreign direct investment. A considerable, though not exactly known portion of the transactions concerned are of indirect relevance for the real economy: these consist of insurance, hedging and arbitrage transactions. What remains is speculation. A small tax on these enormous financial flows would, on one hand, 'throw sand into the wheels of international speculation'[54] and create resources. Those (or part of those) resources could be used for financing the EU budget.

Tax on all financial transactions

This would extend the tax basis of foreign exchange transactions from the circle of traditional transactions to the highly speculative derivatives transactions.

2.3 Criteria for assessing the individual reform proposals

In order to evaluate the various proposals it is necessary to apply certain criteria.[55] These can be allocated to three separate themes.

The first set of criteria is to evaluate the proposals with respect to their serving the transition from a Union of *member states* to a Union of its *citizens*. In the ideal case, the EU budget's own resources are entirely independent of the national treasuries in the member states and possibly of the national tax collecting authorities as well, ensuring financial autonomy for EU-initiated programmes and related expenditures. In a Union of the citizens, the Union's revenues are expected to be visible, fully transparent and as simple as possible so that every citizen is in a position to follow the developments in this field and exercise his or her rights in terms of accountability. Accountability implies a more important role for the European Parliament in budgetary matters than it currently has. The main function of the own resources is to ensure revenues for EU-initiated expenditures. Besides this, taxation may have a selective impact on taxpayers; if one or more EU policies (e.g. the protection of environment) can be fostered through the selection of the subjects carrying the tax burden, *ceteris paribus* the solution delivering positive externalities should be preferred to those that do not.

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[53] James Tobin put forward the idea at his Janeway Lectures at Princeton in 1972, published in Tobin (1974).

[54] Tobin (1996a), Prologue in Haq et al. (1996), p. xi.

[55] This exercise was done in a number of studies: European Commission (2004a); Cattoir (2004); European Commission (1998), Annex 2. The set of criteria presented here has been constructed from various elements of the enlisted studies.

The second set of criteria helps assess the proposals according to merely practical aspects: to what extent they are able to deliver the necessary revenues for the EU budget, and at what costs. Sufficiency is defined as the ability of any own resources system to deliver the previously fixed revenues for the EU budget. Stability requires that the own resource concerned does not undergo any abrupt and substantial changes in its value, and that the fluctuations, which are unavoidable, leave continuously sufficient contributions to the EU revenues. Cost effectiveness of tax collection requires the low-cost collection and simple administration of the revenues selected for financing the EU budget. Solutions relying on existing structures are favourable, those introducing a new tax of a special collection modality are of deteriorating cost effectiveness.

The third set of criteria tries to find out to what extent the individual proposals meet the conditions of equity, a fair sharing of burdens. Here two fundamental options exist: first, when a fair sharing of burdens is a requirement; second, when the solution chosen represents regional arbitrariness, i.e. when the tax is collected but it is impossible to render an account to individual member states. For assessing equity, it is necessary to distinguish between horizontal equity, vertical equity and fair contribution across member states. Horizontal equity refers to the concept that taxpayers (member states, firms or individuals) in identical circumstances are treated identically in their tax liability across the European Union.[56] Vertical equity requires that taxpayers in different circumstances be accordingly differentiated in their tax liability.[57] Translated into practical terms, high-income tax payers would contribute more to the EU budget than low-income ones.

Both horizontal and vertical equity are provided by the *current* and by a potential *purely GNI-based* system at the level of *member states*.[58] Hence the criterion of fair contribution across member states is seen as fulfilled in this case. Unlike the situation under the current or a GNI-based system, certain options for European taxation with equal tax rates for *citizens* or *firms* may lead to violation of horizontal or vertical equity *at member state* level.

If *regional arbitrariness* enjoys a clear preference over a fair sharing of burdens across member states, then some of the proposed European taxes are suited to keeping the origin of revenues by member state fuzzy (corporate income tax, tax on stock exchange transactions, tax on communication, climate charge on aviation).

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56 European Commission (1998), Annex 2, p. 2.

57 European Commission (1998), Annex 2, p. 2.

58 In a milder form of vertical equity, the same tax rate (in per cent of GNI) is sufficient to ensure vertical equity, as a more affluent member state contributes to the common budget with a higher sum per capita than a less affluent one. In a stricter version, if progressive burden sharing is required, tax rates are to be differentiated (lower rates for the relatively poor member states) so that any more affluent member states' contributions will be more than the contributions of any less affluent member states beyond the proportions determined by the different level of economic development of the countries involved. As mentioned earlier, solidarity among member states is the task of the EU budget expenditures; thus, for the vertical equity the milder interpretation (equal tax rates) was applied.

A different approach for an assessment of the potential European taxes was proposed by a research team at the Centre for European Economic Research in Mannheim.[59] They search for answers along the following dimensions: fostering efficient public goods provision; integration compatibility, constraining narrow self-interest and creating budgetary discipline; and finally general principles of taxation.

2.4 Variations for a European tax and the equal sharing of burdens across member states

As mentioned earlier, differentiation of member states by spending targets determined by EU policies ought to take place on the expenditure side of the budget; member states are expected to contribute to the revenues of the EU budget according to their economic strength. Member state economic strength is best measured via the GNI; however, as we have seen, the own resources system is not purely GNI based, even if the GNI component has been increasing over the years and the notional VAT component has been adjusted to reflect the GNI of the individual member states.

Table 2.1

Comparison of member state shares in contributions to the EU budget and in the EU GNI, 2002

Member states	GNI	Share in EU-15 GNI (in %) (1)	Contribution to the EU budget without TOR	Share of member state contribution in total EU-15 contribution (in %) (2)	Difference between share in member state contribution and GNI (in percentage points) (3)=(2)-(1)	Difference between member state contribution and GNI (in %) (4)=(3)/(1)
Belgium	265,967.0	2.91	2,129.4	3.11	0.20	7.01
Denmark	180,333.9	1.97	1,507.5	2.20	0.23	11.73
Germany	2,108,830.0	23.04	15,617.6	22.80	-0.23	-1.02
Greece	141,476.7	1.55	1,215.9	1.78	0.23	14.87
Spain	687,643.0	7.51	5,965.9	8.71	1.20	15.96
France	1,527,794.0	16.69	13,202.7	19.28	2.59	15.50
Ireland	104,691.0	1.14	933.8	1.36	0.22	19.21
Italy	1,250,823.1	13.67	10,411.3	15.20	1.54	11.25
Luxembourg	20,212.2	0.22	173.7	0.25	0.03	14.89
Netherlands	435,501.0	4.76	3,506.3	5.12	0.36	7.61
Austria	216,342.8	2.36	1,658.2	2.42	0.06	2.45
Portugal	127,291.4	1.39	1,101.8	1.61	0.22	15.69
Finland	139,583.0	1.52	1,120.3	1.64	0.11	7.27
Sweden	255,205.7	2.79	1,853.9	2.71	-0.08	-2.91
United Kingdom	1,691,687.7	18.48	8,085.7	11.81	-6.67	-36.12
Total	9,153,382.5	100.00	68,484.0	100.00		

Source: GNI: Eurostat; contributions to the EU budget: European Commission (2007), Annex 4, p. 58.

[59] ZEW (2007), pp. 8-9.

Clearing the data from traditional own resources, actual proportions of member state contributions should be quite close to GNI proportions of the economies concerned. Table 2.1 shows that this assumption does not hold. First member state shares in EU GNI were calculated, then member state shares in factual contributions to the EU budget (without the traditional own resources). For the sake of comparison with the results of other calculations (see later) data from the year 2002 were used. In column (3) we see the difference between the respective shares in percentage points, in column (4) the difference between the respective shares in per cent, namely how many per cent, more or less, any member state contributed to the EU budget compared to its share in the EU GNI.

It can immediately be seen that the UK rebate has a major impact on the results. The UK's share in the member state contributions to the EU budget is 36% lower than the UK share in the EU-15 GNI. The reason is simple: the UK rebate is accounted for on the revenue side of the EU budget. Of the four member states with a rebate on the UK rebate, Sweden and Germany also have a slightly negative contribution/GNI relation, while Austria and the Netherlands have a modest positive relation. Certainly other member states must reckon with higher burdens. Altogether, 8 of the 15 member states paid substantially more (by 11% to 19%) to the EU budget than would have been justified according to their share in the EU-15 GNI.

Taking out the five member states whose contributions to the EU budget are seriously biased through the UK rebate (first the UK, then Austria, Germany, Sweden and the Netherlands, which have a rebate on the financing of the UK rebate), we can test the current own resources system to see whether it reflects the relative economic strength of the member states if it is cleared from the bias caused by the UK rebate. Table 2.2 shows the imaginary 'EU-10' for 2002. These member states' shares in the 'EU-10' GNI and in the contribution to the 'EU-10' budget are very similar; the difference is typically (7 of 10 cases) plus or minus 1 to 2%, with outliers of about +/- 5% This suggests that the current system by and large corresponds to the expectations once the effect of the UK rebate is filtered out.

The European Commission, after evaluating and comparing various options for reform, proposed three main candidates for a possible future own resource of the EU: tax on energy consumption, genuine VAT, and corporate income tax.[60] The Commission, commenting on its proposition, was of the opinion that the energy-based and VAT-based own resources may be introduced in the medium term, considering the progress achieved so far in harmonization in both areas, while a tax on corporate income may only be seen as a much longer-term option. In order to assess the suitability of the selected candidates for an EU tax, these three proposals were investigated in detail.

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[60] European Commission (2004a), p. 58.

Table 2.2

Comparison of selected member state shares in contributions to the EU budget and in the EU GNI, 2002

Member states	GNI	Share in 'EU-10' GNI (in %) (1)	Contribution to the EU budget without TOR	Share of member state contribution in total 'EU-10' contribution (in %) (2)	Difference between share in member state contribution and GNI (in percentage points) (3)=(2)-(1)	Difference between member state contribution and GNI (in %) (4)=(3)/(1)
Belgium	265,967.0	5.98	2,129.4	5.64	-0.34	-5.74
Denmark	180,333.9	4.06	1,507.5	3.99	-0.06	-1.58
Greece	141,476.7	3.18	1,215.9	3.22	0.04	1.18
Spain	687,643.0	15.47	5,965.9	15.80	0.33	2.14
France	1,527,794.0	34.36	13,202.7	34.96	0.60	1.74
Ireland	104,691.0	2.35	933.8	2.47	0.12	5.01
Italy	1,250,823.1	28.13	10,411.3	27.57	-0.56	-2.01
Luxembourg	20,212.2	0.45	173.7	0.46	0.01	1.20
Portugal	127,291.4	2.86	1,101.8	2.92	0.05	1.91
Finland	139,583.0	3.14	1,120.3	2.97	-0.17	-5.51
Total	4,445,815.3	100.00	37,762.3	100.00		

Source: Own calculations based on Table 2.1.

The most fully elaborated version of the European tax on energy is the one planned to be levied on motor fuel for road transport. Table 2.3 shows the results of the estimations for a EUR 330/1,000 litres EU tax on motor fuel for road transport[61] introduced hypothetically in 25 member states in the year 2002.[62] The tax revenues were calculated with the factual consumption of motor fuel in the individual member states. As the tax is imposed on quantities sold and not *ad valorem*, different motor fuel prices in different member states would not be a distorting factor. The sum of collected revenues corresponds to about 1.1% of the hypothetical EU-25 GNI in 2002, i.e. that could have fully ensured the own resources of the EU budget in that year.

The last two columns of Table 2.3 compare the shares of individual member states in the EU GNI and in the revenues from the collected tax, respectively. The data in the last column shows that the deviations are relatively small (plus/minus 10%) for 7 of the 25 member states, but large for the rest of them. Estonia and Luxembourg would pay close to three times as much as justified by their share in the EU GNI. The relative tax burden in the case of Latvia, the Slovak Republic, the Czech Republic, Lithuania and Slovenia would be at least about twice as high. The highly developed member states fare better. The contribution to the EU budget for Denmark (-27%), the UK and the Netherlands (-19% each), relative to their share in the EU GNI, would be substantially less. Germany, with about -10%, would also be among the winners.

[61] Leaded and unleaded petrol, diesel, LPG, and natural gas used as a motor fuel.

[62] European Commission (2004a), pp. 47-51.

The Commission made similar calculations for the year 2001 to test the impact of a genuine VAT tax.[63] In this estimation, non-harmonized and uncapped national VAT bases were involved, with a 1% EU levy. The estimated revenues correspond to 0.44% of the hypothetical EU-25 GNI in 2001, which means that somewhat less than half of the hypothetical EU-25 budget's own resources could have been covered in 2001.

Table 2.3

Comparison of member state share in GNI and hypothetical EU tax on motor fuel for road transport, 2002

Member states	GNI	Share in GNI (in %)	EU levy 330 euro/1000 litres of motor fuel (euro million)	Share in payments of EU levy on motor fuel for road transport (in %)	Difference between share in payments of EU levy on motor fuel and GNI (in percentage points)	Difference between share in payments of EU levy on motor fuel and GNI (in %)
	(1)	(2)		(3)	(4) = (3) - (2)	(5) = (4)/(2)
Belgium	265,967.0	2.77	3,065.9	2.79	0.02	0.62
Czech Republic	74,123.8	0.77	1,815.3	1.65	0.88	113.77
Denmark	180,333.9	1.88	1,500.4	1.37	-0.51	-27.38
Germany	2,108,830.0	21.99	21,847.2	19.89	-2.10	-9.57
Estonia	7,122.7	0.07	236,5	0.22	0.14	189.83
Greece	141,476.7	1.48	2,287.2	2.08	0.61	41.12
Spain	687,643.0	7.17	10,938.2	9.96	2.79	38.85
France	1,527,794.0	15.93	16,643.0	15.15	-0.78	-4.91
Ireland	104,691.0	1.09	1,409.2	1.28	0.19	17.49
Italy	1,250,823.1	13.05	14,441.7	13.15	0.10	0.78
Cyprus	10,783.4	0.11	231,0	0.21	0.10	86.99
Latvia	9,787.1	0.10	294,9	0.27	0.17	163.01
Lithuania	14,739.8	0.15	365,1	0.33	0.18	116.21
Luxembourg	20,212.2	0.21	680,1	0.62	0.41	193.71
Hungary	65,131.6	0.68	1,235.8	1.13	0.45	65.62
Malta	4,084.2	0.04	67,5	0.06	0.02	44.26
Netherlands	435,501.0	4.54	4,030.2	3.67	-0.87	-19.22
Austria	216,342.8	2.26	2,352.3	2.14	-0.11	-5.09
Poland	200,501.5	2.09	2,886.9	2.63	0.54	25.68
Portugal	127,291.4	1.33	2,432.1	2.21	0.89	66.78
Slovenia	23,343.6	0.24	532,7	0.48	0.24	99.19
Slovak Republic	25,195.4	0.26	667,7	0.61	0.35	131.32
Finland	139,583.0	1.46	1,521.3	1.38	-0.07	-4.87
Sweden	255,205.7	2.66	2,766.7	2.52	-0.14	-5.37
United Kingdom	1,691,687.7	17.64	15,596.5	14.20	-3.44	-19.52
Total	9,588,195.6	100,00	109,845.5	100,00		

Source: European Commission (2004a), p. 48.

[63] Ibid., pp. 51-55.

Table 2.4

Comparison of member state share in GNI and hypothetical EU tax on VAT base, 2001

Member states	GNI	Share in GNI (in %)	National VAT base, uncapped and unharmonized	EU levy (1 % of VAT base)	Share in fiscal VAT-based payments (in %)	Difference between share in VAT based payments and GNI (in percentage points)	Difference between share in VAT based payments and GNI (in per cent)
	(1)	(2)	(3)	(4) = (3)*0.01	(5)	(6) = (5) - (2)	(7) = (6)/(2)
Belgium	258 007,0	2,79	105 432,7	1 054,3	2,57	-0,22	-7,76
Czech Republic	65 500,4	0,71	32 650,0	326,5	0,80	0,09	12,52
Denmark	175 411,9	1,90	74 843,0	748,4	1,83	-0,07	-3,69
Germany	2 065 640,0	22,35	944 217,2	9 442,2	23,06	0,71	3,18
Estonia	5 941,8	0,06	3 400,6	34,0	0,08	0,02	29,18
Greece	131 144,0	1,42	68 553,4	685,5	1,67	0,26	17,99
Spain	644 093,0	6,97	350 514,1	3 505,1	8,56	1,59	22,84
France	1 487 136,0	16,09	720 552,8	7 205,5	17,60	1,51	9,37
Ireland	97 480,3	1,05	48 099,4	481,0	1,17	0,12	11,38
Italy	1 209 748,3	13,09	486 819,5	4 868,2	11,89	-1,20	-9,16
Cyprus	10 230,4	0,11	6 760,5	67,6	0,17	0,05	49,17
Latvia	8 642,0	0,09	3 467,0	34,7	0,08	-0,01	-9,44
Lithuania	13 304,3	0,14	5 912,5	59,1	0,14	0,00	0,31
Luxembourg	20 441,2	0,22	12 637,1	126,4	0,31	0,09	39,55
Hungary	54 708,3	0,59	25 094,5	250,9	0,61	0,02	3,54
Malta	4 043,8	0,04	2 003,2	20,0	0,05	0,01	11,82
Netherlands	425 246,0	4,60	206 107,7	2 061,1	5,03	0,43	9,40
Austria	208 711,8	2,26	100 878,6	1 008,8	2,46	0,21	9,10
Poland	205 578,5	2,22	105 142,2	1 051,4	2,57	0,34	15,45
Portugal	119 590,0	1,29	75 686,1	756,9	1,85	0,55	42,86
Slovenia	21 888,0	0,24	12 775,7	127,8	0,31	0,08	31,75
Slovak Republic	23 322,7	0,25	10 821,8	108,2	0,26	0,01	4,74
Finland	134 615,0	1,46	48 225,2	482,3	1,18	-0,28	-19,13
Sweden	242 828,5	2,63	100 122,1	1 001,2	2,44	-0,18	-6,93
United Kingdom	1 610 577,8	17,42	544 450,6	5 444,5	13,29	-4,13	-23,69
Total	9 243 831,0	100,00	4 095 167,6	40 951,7	100,00		

Source: European Commission (2004a), p. 53.

The deviations from member state shares in the EU GNI are less in the case of a genuine VAT EU tax than they were in the case of the motor fuel tax; nonetheless they are still considerable (see Table 2.4). The big losers are Cyprus, Slovenia, Luxembourg and Portugal in a range of 49% to 32% more contribution to the EU budget than that justified through the respective country's share in the aggregate EU GNI. Germany would be placed among the modest losers (3%). On the other extreme, the biggest winner is the UK, with 24% less contribution, followed by Finland with -19%, and Latvia and Italy with -9% each. It is important to note that in 12 of the 25 member states there are transactions with

zero VAT rates, and the inclusion of these transactions in the national VAT base would make a considerable difference compared to the situation analysed here. Most importantly, the UK VAT base would increase by 31%, changing the apparently advantageous position of the country mentioned above. The tax base would be substantially higher in the case of Malta, Cyprus and Ireland; for the other member states the difference is negligible.

Table 2.5

Comparison of member state share in GNI and in hypothetical EU tax on corporate income, 2002

Member states	Revenue from corporate income taxes in % of member state GNI	Revenues in EUR mn	EU tax, 30% of total collected national corporate income taxes	Member state share in 'EU 21' GNI (in %)	Member state share in collected EU tax (in %)	Difference between share in corporate income tax based contributions and GNI (in percentage points)	Difference between share in corporate income tax based contributions and GNI (in per cent)
				1	2	3=2 - 1	4=3/1
Belgium	3,05	8,112.0	2,433.60	2.82	3.59	0.77	27.11
Czech Republic	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Denmark	2,90	5,229.7	1,568.90	1.91	2.31	0.40	20.86
Germany	0,59	12,442.1	3,732.63	22.39	5.50	-16.88	-75.41
Estonia	1,28	91.2	27.35	0.08	0.04	-0.04	-46.66
Greece	3,75	5,305.4	1,591.61	1.50	2.35	0.85	56.28
Spain	3,49	23,998.7	7,199.62	7.30	10.62	3.32	45.45
France	2,62	40,028.2	12,008.46	16.22	17.71	1.49	9.19
Ireland	4,59	4,805.3	1,441.60	1.11	2.13	1.01	91.29
Italy	2,64	33,021.7	9,906.52	13.28	14.61	1.33	10.02
Cyprus	4,98	537.0	161.10	0.11	0.24	0.12	107.55
Latvia	1,96	191.8	57.55	0.10	0.08	-0.02	-18.32
Lithuania	0,60	88.4	26.53	0.16	0.04	-0.12	-74.99
Luxembourg	9,53	1,926.2	577.87	0.21	0.85	0.64	297.17
Hungary	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Malta	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Netherlands	3,80	16,549.0	4,964.71	4.62	7.32	2.70	58.37
Austria	3,10	6,706.6	2,011.99	2.30	2.97	0.67	29.19
Poland	1,95	3,909.8	1,172.93	2.13	1.73	-0.40	-18.73
Portugal	3,83	4,875.3	1,462.58	1.35	2.16	0.81	59.62
Slovenia	1,37	319.8	95.94	0.25	0.14	-0.11	-42.90
Slovak Republic	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Finland	4,29	5,988.1	1,796.43	1.48	2.65	1.17	78.79
Sweden	2,57	6,558.8	1,967.64	2.71	2.90	0.19	7.11
United Kingdom	2,68	45,337.2	13,601.17	17.96	20.06	2.10	11.69
Total 'EU 21'		226,022.5	67,806.74	100.00	100.00		

Source: European Commission (2004a), p. 56 and own calculations.

The third candidate for a European tax proposed by the Commission, the *corporate income tax*, was not tested in terms of revenues by the Commission itself in the paper cited, but the data made available in that document[64] allow an estimation of the potential incomes and their distribution across member states. As no data were available for four member states, an artificial 'EU-21' had to be created for 2002. Calculating with a 30% levy on the national tax base for corporate incomes, the revenues collected would have covered about 72% of own resources of the hypothetical 'EU-21' in 2002, if total own resources were calculated as 1% of member state GNI in that year (see Table 2.5). It can be seen from the figures in the table that the deviations are large. On the side of the losers, Luxembourg would have had to pay a contribution to the EU budget that was four times as high as the country's share in the 'EU-21' GNI; in the case of Cyprus and Ireland, the contribution would have been twice as much as their share[65] For other member states on the 'loser' side, the deviation is less extreme but still considerable. Of the member states with smaller contributions than their share in GNI, Germany has the most advantageous situation: while it had a share of 22.4% in the 'EU 21' GNI in 2002, its share in total revenues collected through a hypothetical EU tax on corporate incomes would have been 5.5% only. Other big 'winners' are the Baltic states, Slovenia and Poland.

Another potential candidate for an EU tax is *personal income tax*. In the 24 EU member states where data for personal income tax revenues are available,[66] the collected tax amounted to close to 9% of the artificially created 'EU-24' GNI in 2005 and even the member states with the lowest income from this tax, Cyprus, collected more (2.9% of its GNI) than the minimum required 1% (see Table 2.6).[67] In our estimation calculated with a 10% unified tax rate levied on the collected revenues from national personal income taxes, about 13% more revenues could have been secured for the EU budget than the factual contributions of the 'EU-24' member states to the EU budget in that year actually collected. However, as in the case of the other candidate taxes addressed above, the differences in member state shares in EU GNI and collected personal income tax are significant. Denmark, where personal income tax revenues are the highest in the EU compared to the GNI, would have paid two and a half times as much into the EU budget as would have been justified purely by its economic strength, i.e. its share in the aggregate EU GNI. Other Nordic member states, Sweden and Finland, would also have been massive 'losers' of this system. On the other extreme, Cyprus, Poland and Slovak Republic would have contributed 60% to 70% less to the EU budget than in a system based purely on member state shares in the aggregate EU GNI. To a smaller extent, the Czech Republic, Estonia and Greece would have been significant 'winners'.

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[64] Ibid., p. 56.

[65] This may be related to the special position of these countries as a sort of 'tax haven' in the EU.

[66] No data were available for Portugal.

[67] Taxation Trends in the EU (2007).

Table 2.6

Comparison of member state share in GNI and in hypothetical EU tax on personal income, 2005

Member states	Revenue from personal income taxes in % of MS GNI	Revenues in EUR mn	EU tax, 10% of total collected personal income taxes	MS share in 'EU 24' GNI (in %)	MS share in collected EU tax (in %)	Difference between share in personal income tax based contributions and GNI (in percentage points)	Difference between share in personal income tax based contributions and GNI (in per cent)
				1	2	3=2 - 1	4=3/1
Belgium	12.3%	36,946	3,695	2.77	3.85	1.08	39.17
Czech Republic	4.4%	4,212	421	0.88	0.44	-0.44	-49.93
Denmark	23.3%	49,033	4,903	1.93	5.11	3.18	164.78
Germany	8.5%	192,482	19,248	20.80	20.05	-0.75	-3.62
Estonia	4.8%	522	52	0.10	0.05	-0.04	-45.10
Greece	4.9%	8,668	867	1.63	0.90	-0.73	-44.69
Spain	6.1%	54,344	5,434	8.23	5.66	-2.57	-31.19
France	7.7%	132,764	13,276	15.90	13.83	-2.07	-13.03
Ireland	7.9%	10,920	1,092	1.26	1.14	-0.13	-9.94
Italy	10.2%	144,298	14,430	13.01	15.03	2.02	15.51
Cyprus	2.9%	394	39	0.12	0.04	-0.08	-66.67
Latvia	5.2%	666	67	0.12	0.07	-0.05	-41.15
Lithuania	6.3%	1,285	128	0.19	0.13	-0.05	-28.37
Luxembourg	7.6%	1,900	190	0.23	0.20	-0.03	-13.83
Hungary	6.7%	5,588	559	0.77	0.58	-0.19	-24.25
Malta	7.1%	321	32	0.04	0.03	-0.01	-19.41
Netherlands	6.2%	31,706	3,171	4.70	3.30	-1.40	-29.79
Austria	9.4%	22,750	2,275	2.23	2.37	0.14	6.27
Poland	3.4%	8,011	801	2.17	0.83	-1.33	-61.52
Portugal	na	na	na	na	na	na	na
Slovenia	5.8%	1,627	163	0.26	0.17	-0.09	-34.11
Slovak Republic	2.5%	938	94	0.34	0.10	-0.24	-71.34
Finland	12.9%	20,284	2,028	1.45	2.11	0.66	45.80
Sweden	15.5%	44,483	4,448	2.64	4.63	2.00	75.83
United Kingdom	10.1%	185,914	18,591	16.91	19.36	2.46	14.55
Total 'EU 24'	8.8%	960,056	96,006	100.00	100.00		

Source: Taxation Trends in the EU, 2007 edition (www.ec.europa.eu/taxation_customs/taxation/gen_info/ economic_analysis/ tax_structures/index_en.htm, p. 260.), Eurostat and own calculations.

In a study[68] made by Deloitte Consulting on the commission of the European Parliaments' Committee on Budgets, three candidate taxes discussed above (VAT, motor fuel, corporate profit) plus the excise duties on alcohol and tobacco were investigated. For our analysis, focused on net financial positions of the member states, one aspect of this study is interesting, namely that in which the stability of the tax revenues is discussed. Stability is interpreted here as the relation between each member state's tax revenue and its economic

[68] Doherty (2007).

performance and is measured by calculating the correlation between revenues and GDP per capita in the period 2000-2005. Should tax revenues increase (or decrease) closely together with the member states' economic performance, the candidate tax is suitable for the role of a European tax; in the opposite case, a good portion of instability will be induced into the system as time passes. If the European tax revenues grow substantially slower in some member states than their economy, their contributions will become, in the medium and longer term, proportionally smaller compared to other member states. In the opposite case, the member states with relatively rapidly growing revenues from the European tax will contribute relatively more to the EU budget than other member states.

In any case, the 'flatness' of the European tax across member states is questioned in the case of a weak correlation in this respect.

In the case of the VAT, the correlation between VAT revenues and GDP per capita in 2000-2005 was at least 90% for nearly all member states. In Poland and Sweden the correlation was slightly weaker due to a temporary slowdown of GDP growth whilst VAT revenues kept on growing. The only outlier was Malta, for unclear reasons, with less than 50% correlation. The correlation concerned was substantially weaker in the case of the motor fuel tax, for some member states below 75%, for three member states even below 50%. In the case of excise duties on alcohol and tobacco, the correlation was negative for Denmark, Sweden and Finland, and low for four other member states.[69] It is important to mention here that a European tax on excise duties on alcohol and tobacco would at all events be rather problematic, as in 9 member states the revenues collected via this tax are less than these member states' contributions (without TOR) to the EU budget.

There is a separate group of candidates for an EU tax where the common denominator is that the tax would be charged on a specified circle of *financial transactions*.

Tax on *traditional stock exchange transactions* (shares and bonds) has long been one of the potential European taxes.

Although a complete allocation of turnover to individual member states is not possible, since some member states are participants in alliances of several stock exchanges, the data present a clear message concerning the distribution of a potential tax burden by member state, provided that a unified tax rate was applied.[70] The UK (the London Stock Exchange) had a 39% share in turnover of stocks in 2006, Spain (BME Spanish Exchanges) a 41% share in turnover of bonds. In the combined turnover (stocks and bonds together) the UK had 35%, Spain 22%. These two countries, with one quarter of the EU-25 GNI in 2006, would have paid 57% of total contributions to the EU' s own resources

[69] Doherty (2007), pp. 10-20.

[70] Richter (2008), p. 31.

in the case of a unified tax rate. The new member states, Ireland, Luxembourg, Greece and Austria would have been practically free riders of the EU budget.

The idea of a *tax on foreign exchange transactions* has been raised and discussed since the early 2000s.[71] The Bank of International Settlements investigates the global turnover of 'traditional' foreign exchange transactions[72] and makes the respective statistical data available in its Triennial Bank Survey. The latest available data reflect the situation in 2007. The figures show that close to half of the global turnover is attributable to the European Union, and within the Union about two thirds of the turnover is achieved in London. The member state with the second-highest turnover is Germany, with less than 5% of the turnover in the EU.[73]

The rapid increase and enormous turnover of financial derivates encourages the fantasy of extending the idea of a foreign exchange transaction tax to international derivates trade.

As far as *derivates traded at the stock exchanges* are concerned, the geographical distribution of the transactions is extremely uneven across member states. 76% of the turnover is implemented in Euronext, an alliance of stock exchanges of Belgium, France, the Netherlands, Portugal and the UK (derivatives only). Within the Euronext alliance, the market place London is outstanding in a global dimension and its exceptional role has been on the rise for years. About one fifth of the turnover is attributable to Eurex, which is an alliance of stock exchanges operated by Deutsche Börse AG and SWX Swiss Exchange. All other market places are of marginal significance, if any.[74]

The geographical distribution of over the counter (*OTC) derivatives transactions* is only slightly less extreme than that of stock exchange traded derivatives. Again, London has the leading role: over 70% of total EU turnover was transacted here in 2007. The whole Eurozone accounted for a third of the UK turnover. Only France and Germany (9% and 6% of the EU turnover, respectively) were relevant participants. The new member states' combined share was 0.9%, much below their relative economic strengths in the EU-27. Some of the new member states had no reported transactions at all (Bulgaria, Lithuania, Slovenia, Malta and Cyprus); they would be free riders in the case of an EU tax on OTC derivatives transactions.[75]

We will not discuss the remaining EU candidate taxes in detail.[76]

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[71] Spahn (2002), Jetin and Lieven (2005), Richter (2008).

[72] Spot and outright forwards transactions, foreign exchange swaps.

[73] Richter (2008), p. 37.

[74] Richter (2008), p. 45.

[75] Richter (2008), pp. 47-48.

[76] Of these taxes, revenues from withholding tax on interest income would be far from securing the member state contributions. Transfer of seigniorage revenue will remain a problematic potential resource as long as the EU is divided

To conclude, a comparison of the various options for a future EU tax with a focus on the deviations between member state shares in the EU GNI and member state shares in the collected revenues from the tax makes it clear that the deviations are much larger in the case of the proposed taxes than they are in the current system. The introduction of any of the tested EU taxes in the forms proposed would bring about increasing inequality across member states in the sharing of the EU budget's burdens. Currently, a fundamental feature of the own resources system is that it is designed to reflect the economic strength of the member states, even if important discretional exceptions have been made to counterbalance some member states' excessive negative net financial positions. These exceptions were pushed to the extreme in the December 2005 European Council bargain. But should any of the proposed EU taxes, or a combination of them, replace the current system, the idea of a fair sharing of burdens on the revenue side of the EU budget would be abandoned.[77]

Today we have a nearly 'flat' own resources system and the main battlefield for better net financial positions is that of the expenditures (and certainly the UK rebate). Allowing deviations from the GNI-proportional allocation of contributions to the EU budget in the magnitudes seen in Tables 2.3 to 2.10 would open up a new field of debate motivated by 'juste retour'. That would make a consensus-finding process very difficult. One remedy for the problem would be the introduction of a generalized correction mechanism that would take care of ironing out the differences which emerge either on the own resources or on the expenditure side of the budget.

Another solution, which keeps the idea of a European tax and simultaneously eliminates the problem of inequality in sharing the burdens without a generalized correction mechanism, will be presented in the framework of a comprehensive reform proposal in Chapter 5.

3 Expenditures and net final positions

3.1 EU policies and expenditures

In the current financial framework, expenditures from the EU budget are allocated across 6 headings, and within heading 1, across two very important sub-headings. Conditions of eligibility for participation wildly differ, not only by headings but by sub-headings and down to a much more disaggregated level. These conditions of eligibility have emerged in an

between member states where the euro has already been introduced and member states where this will take place in the uncertain future; moreover, the low level of revenue generated is low: only about 10% of the annual EU budget. A climate charge on aviation is also far from being able to generate the necessary revenues for the EU budget. A tax on communication services has not been elaborated in detail and needs intensive harmonization efforts first.

[77] ZEW (2007) comes to a similar conclusion after testing several potential EU taxes for their distributive consequences (across member states) on pp. 94-102.

evolutionary way over decades and have never been placed in a conceptually unified framework. Member states are beneficiaries of individual EU policies on their own 'merit' decoupled from participation in other EU policies. The consequence is a strong differentiation in the extent of financial support from the EU budget by member states, to a major extent decoupled from the level of prosperity of the member states. In principle, this is not a problem, as solidarity among the member states is intended to be expressed and translated into practical terms on the expenditure side of the EU budget, while securing equity is a task to be solved on the revenue (own resources) side of the budget.

Certainly the EU policies are not fully independent of one another in reality. Member states keep a jealous watch over their weight in individual expenditure programmes, and in the negotiations on the financial perspectives, approval or rejection of changes in one EU policy area often depend on compensatory changes in other policy areas.

3.2 Deviation of member state shares in the EU GNI and in expenditures from the Community budget

Tables 3.1, 3.3 and 3.5 show the member states' shares in the EU GNI and the same countries' shares in main headings for expenditures from the EU budget. In the last column of these tables, these respective shares are compared. A negative figure indicates a member state's lower share in the selected expenditure heading compared to its share in the EU's GNI and vice versa.

In 1997 Germany was an absolute 'loser' in the context of the EU budget (Table 3.1). In all three expenditure headings it had a substantially smaller share than it had in the EU GNI. In each heading the deviation was more than -10 percentage points; combined it amounted to -11.4 percentage points. Of the 15 EU members, only the UK had a similarly disadvantageous position; nevertheless, in the case of the UK the deviation was smaller, in agriculture -5 percentage points, in structural operations -8.5 percentage points, altogether -6 percentage points. Ironically, in that year the UK had a slight surplus vis-à-vis the EU budget, but this was only thanks to the rebate, which put the UK into the group of net beneficiaries. In that year Germany would have deserved a 'German rebate' nearly twice as big as that of the UK. It is remarkable that France had a highly positive expenditure/GNI deviation in agriculture and a negative one in structural operations, and finally the two deviations neutralized each other and the combined deviation was nearly zero. With regard to the well-known regional differences in the level of development, it is quite surprising that Italy had a negative deviation in structural operations.

Of the altogether 7 net beneficiary member states in 1997, certainly the four cohesion countries had highly positive expenditure/GNI deviations.

In the case of the net payer member states, the share of agriculture amounted to between 55% and 75% of total expenditures (see Table 3.2). For the net beneficiary member states there is no clear pattern in the distribution of main expenditure headings by member state. There are 'agricultural expenditure' driven and 'structural operations expenditure' driven member states both among the net payers and the net beneficiary countries.

Table 3.2 illustrates that there is no clear pattern in the distribution of main expenditure headings by member state. There are 'agricultural expenditure' and 'structural operations expenditure' driven member states both among the net payer and the net beneficiary countries.

In 2003, the last year before enlargement, the situation had hardly changed compared to 1997, with Germany and the UK figuring as the two 'losers' of the cross country redistribution in the EU, the latter with a rebate to remedy the situation, the former already with a rebate on the UK rebate (only 25% of the standard, GNI-proportional financing of the UK rebate had been accounted for). A new feature was that the Netherlands joined the club of Germany and the UK with a remarkable (but still less strong) negative expenditure/GNI deviation in each expenditure heading (Table 3.3).

In 2006, the third year of the enlarged EU, the picture on the net payer members' side changed. Though Germany and the UK remained 'losers' in terms of expenditure/GNI deviation in each heading, the extent of the (combined) deviation declined to a certain extent compared to 2003 (for Germany from 9.1 percentage points to 6.9 percentage points, for the UK from 9.5 percentage points to 7.8 percentage points, see Table 3.5). The Netherlands remained another major 'loser' both in agriculture and structural policies, to the same extent as in 2003.

On the side of the net beneficiary member states, the old cohesion countries Spain and Greece maintained remarkable positive deviations, both in agriculture and in structural operations, but mainly in the latter heading. Ireland attained a significant positive deviation only in agricultural expenditures. Of the new members, all but Cyprus had positive expenditure/GNI deviations, but their extent was less spectacular than that of Greece and Portugal, except for the three Baltic states. In their case, the 'small country effect' hides the good results, as the deviations concerned are small in absolute terms, but the respective small shares in expenditures were three to four times as high as their shares in the EU GNI. The performance of the Czech Republic was surprisingly weak, with only marginal positive deviations in the agriculture and structural operations and negative deviation in internal policies.

While phasing in of the direct payments had actually just started in the new member states, taking the data of Table 3.6 it is interesting to see that expenditures for agriculture made up

about half of all allocated expenditures in the cases of Hungary, Poland, Slovenia, Cyprus and Czech Republic.

Taking the three main expenditure headings of the EU budget (agriculture, structural policy, internal policy) in 1997, 2003 and 2006, we can see that there are member states which are 'losers' in each of the three areas (Table 3.7). The UK and Germany had a lower share in each expenditure heading than in the EU GNI in all three selected years. On the other extreme, Ireland, Greece and Portugal had a positive deviation in each of the three expenditure headings compared to their share in the EU GNI in all three years. Nevertheless, in each of the selected years the majority of the EU members had a mixed result, i.e. they had at least one expenditure heading where they received more from the EU budget than their share in the EU GNI. It is remarkable that some member states which are roughly at the same level of development as the eternal 'losers' Germany and the UK managed to secure at least one 'winner' position in each of the three years (Finland, France, Denmark, Belgium and Luxembourg).

In Table 3.8 only the two most important expenditure headings, agriculture and structural policies, are displayed, accounting for more than 80% of the total expenditures. It is discernable from the figures that four highly developed member states (Austria, Denmark, Finland, France) had become considerable beneficiaries of the CAP by 2006, participating in the respective expenditures with a higher share than in the EU GNI, while their position was the opposite in structural policy expenditures. There were only two member states (Italy and Malta) in the inverse situation, namely in a 'winner' position in structural policy expenditures and a 'loser' position in agriculture.

With the help of already published data about pre-allocated expenditures in agriculture (rural development and direct payments[78], without market intervention) and cohesion, it is possible to provide a rudimentary estimation of member state shares in these two expenditure headings in 2013. Comparing these to member state shares in the estimated EU GNI in that year, we may acquire an insight into future 'winners' and 'losers' of individual expenditure headings. Table 3.9 demonstrates that even in 2013 the three major losers will be Germany, the UK and Netherlands, with remarkably lower shares both in agriculture and cohesion than in the EU GNI. The UK and German positions will be, to a significant extent, worse in the field structural policy/cohesion in 2013 than they were in 2006. This spectacular deterioration in structural policy/cohesion can be expected in the case of France, too; nevertheless, France's 'winner' position in agriculture will be maintained even in 2013.

[78] National upper ceilings.

Table 3.1

Deviation of GNI and selected expenditure headings in shares of member states, 1997

	GNI ECU mn	Distribution in %	Selected expenditures ECU mn				Selected expenditures, distribution in %				Deviation Selected expenditures/GNI in % points			
			Agriculture	**Structural operations**	**Internal policies**	**Selected expenditures total**	**Agriculture**	**Structural operations**	**Internal policies**	**Selected expenditures total**	**Agriculture**	**Structural operations**	**Internal policies**	**Selected expenditures total**
Net payer MS		**(1)**					**(2)**	**(3)**	**(4)**	**(5)**	**(6)=(2)-(1)**	**(7)=(3)-(1)**	**(8)=(4)-(1)**	**(9)=(5)-(1)**
Germany	1,893,433	25.63	5,778.4	3,636.0	726.7	10,141.1	14.22	13.97	15.55	14.22	-11.40	-11.66	-10.08	-11.41
Sweden	215,301	2.91	747.0	230.6	127.7	1,105.3	1.84	0.89	2.73	1.55	-1.08	-2.03	-0.18	-1.36
Austria	181,545	2.46	861.3	364.0	78.2	1,303.6	2.12	1.40	1.67	1.83	-0.34	-1.06	-0.78	-0.63
Luxembourg	15,728	0.21	22.8	19.9	75.6	118.3	0.06	0.08	1.62	0.17	-0.16	-0.14	1.40	-0.05
Netherlands	345,686	4.68	1,757.3	421.3	341.9	2,520.4	4.33	1.62	7.31	3.53	-0.35	-3.06	2.64	-1.15
Belgium	224,686	3.04	983.4	357.9	492.5	1,833.8	2.42	1.37	10.54	2.57	-0.62	-1.67	7.50	-0.47
France	1,266,561	17.14	9,149.0	2,460.3	604.9	12,214.2	22.52	9.45	12.94	17.12	5.38	-7.69	-4.20	-0.02
Italy	1,045,783	14.15	5,090.8	2,895.0	528.1	8,514.0	12.53	11.12	11.30	11.94	-1.62	-3.04	-2.86	-2.22
Net beneficiary MS														
Ireland	63,406	0.86	2,034.0	1,211.2	105.7	3,350.9	5.01	4.65	2.26	4.70	4.15	3.79	1.40	3.84
Greece	110,103	1.49	2,730.8	2,643.7	163.7	5,538.2	6.72	10.15	3.50	7.76	5.23	8.66	2.01	6.27
Portugal	97,630	1.32	656.9	2,941.5	190.2	3,788.6	1.62	11.30	4.07	5.31	0.30	9.98	2.75	3.99
Spain	500,861	6.78	4,605.6	6,376.8	296.2	11,278.6	11.34	24.49	6.34	15.81	4.56	17.71	-0.44	9.03
Denmark	148,285	2.01	1,235.7	169.6	137.2	1,542.4	3.04	0.65	2.93	2.16	1.03	-1.36	0.93	0.16
Finland	106,675	1.44	570.6	379.9	88.7	1,039.2	1.40	1.46	1.90	1.46	-0.04	0.02	0.45	0.01
UK	1,172,602	15.87	4,399.7	1,928.9	716.8	7,045.4	10.83	7.41	15.34	9.88	-5.04	-8.46	-0.54	-5.99
Total	7,388,285	100.00	40,623.2	26,036.7	4,674.0	71,333.9	100.00		100.00	100.00	0.00	-100.00	0.00	0.00

Source: Own calculations based on European Commission (2007), Annex 3. and 4.

Altogether 8 member states will be ‘losers’ both in agriculture and cohesion expenditures (see Table 3.10). Germany and the UK have already been mentioned. Losers with smaller respective deviations will be Belgium, Sweden, Italy, Luxembourg and, with only marginal deviations (if at all), Cyprus. 13 of the 27 member states will be ‘winners’ both in agricultural and cohesion expenditures, three old cohesion countries and all but two (Cyprus and Malta) of the new member states. The tendency toward polarization is obvious, with 21 member states in double ‘winner’ or double ‘loser’ positions and only 6 member states in mixed positions.

Table 3.2

Distribution of selected expenditures by expenditure heading, 1997

1997	Agriculture	Structural operations	Internal policies	Total
Net payer MS				
Germany	57.0	35.9	7.2	100
Sweden	67.6	20.9	11.6	100
Austria	66.1	27.9	6.0	100
Luxembourg	19.2	16.9	63.9	100
Netherlands	69.7	16.7	13.6	100
Belgium	53.6	19.5	26.9	100
France	74.9	20.1	5.0	100
Italy	59.8	34.0	6.2	100
Total	*64.6*	*27.5*	*7.9*	*100*
Net beneficiary MS				
Ireland	60.7	36.1	3.2	100
Greece	49.3	47.7	3.0	100
Portugal	17.3	77.6	5.0	100
Spain	40.8	56.5	2.6	100
Denmark	80.1	11.0	8.9	100
Finland	54.9	36.6	8.5	100
UK	62.4	27.4	10.2	100
Total	*48.3*	*46.6*	*5.1*	*100*
Total	***56.9***	***36.5***	***6.6***	***100***

Source: Own calculations based on European Commission (2007), Annex 3 and 4.

One possible way of improving the overall net financial position of a member state is to fight for a better position in the individual expenditure headings (smaller negative or higher positive deviation compared to the share in the EU GNI). That may either mean a conservative attitude by ‘winners’ of the current system, manifested in efforts to block reforms bringing about changes that may hurt achieved positions, or, in the case of member states for which changes would mean improvement, a progressive attitude appearing in stepped-up readiness for reforms.

Table 3.3

Deviation of GNI and selected expenditure headings in shares of member states, 2003

	GNI EUR mn	Distribution in %	Selected expenditures EUR mn				Selected expenditures, distribution in %				Deviation Selected expenditures/GNI in % points			
			Agriculture	Structural operations	Internal policies	Selected expenditures total	Agriculture	Structural operations	Internal policies	Selected expenditures total	Agriculture	Structural operations	Internal policies	Selected expenditures total
Net payer MS		**(1)**					**(2)**	**(3)**	**(4)**	**(5)**	**(6)=(2)-(1)**	**(7)=(3)-(1)**	**(8)=(4)-(1)**	**(9)=(5)-(1)**
Netherlands	482,368.0	5.08	1,397.3	218.0	322.5	1,937.7	3.15	0.77	6.69	2.50	-1.93	-4.31	1.62	-2.58
Sweden	272,043.4	2.86	866.5	395.7	161.7	1,423.9	1.95	1.39	3.36	1.83	-0.91	-1.47	0.49	-1.03
Germany	2,145,770.0	22.58	5,876.9	3,788.1	780.1	10,445.2	13.24	13.31	16.19	13.45	-9.34	-9.27	-6.39	-9.13
Belgium	278,446.2	2.93	1,025.3	118.4	554.7	1,698.4	2.31	0.42	11.51	2.19	-0.62	-2.51	8.58	-0.74
Luxembourg	20,710.4	0.22	44.3	6.4	97.1	147.8	0.10	0.02	2.01	0.19	-0.12	-0.20	1.80	-0.03
Austria	224,213.2	2.36	1,128.1	299.9	129.0	1,557.0	2.54	1.05	2.68	2.00	0.18	-1.31	0.32	-0.35
UK	1,637,217.3	17.23	4,013.8	1,392.1	629.6	6,035.4	9.04	4.89	13.06	7.77	-8.18	-12.34	-4.16	-9.46
Denmark	187,347.1	1.97	1,223.8	105.5	115.1	1,444.5	2.76	0.37	2.39	1.86	0.79	-1.60	0.42	-0.11
France	1,604,682.0	16.89	10,464.1	1,978.2	642.6	13,084.9	23.58	6.95	13.33	16.85	6.69	-9.94	-3.55	-0.04
Italy	1,324,398.6	13.94	5,393.4	4,542.3	568.4	10,504.1	12.15	15.96	11.80	13.53	-1.78	2.02	-2.14	-0.41
Finland	143,880.0	1.51	876.1	327.6	116.0	1,319.7	1.97	1.15	2.41	1.70	0.46	-0.36	0.89	0.19
Net beneficiary MS														
Portugal	136,255.9	1.43	855.9	3,741.3	154.5	4,751.7	1.93	13.14	3.21	6.12	0.49	11.71	1.77	4.68
Greece	153,888.2	1.62	2,762.1	1,908.3	158.8	4,829.2	6.22	6.70	3.30	6.22	4.60	5.09	1.68	4.60
Ireland	118,522.0	1.25	1,965.2	603.9	81.6	2,650.7	4.43	2.12	1.69	3.41	3.18	0.87	0.45	2.17
Spain	773,449.0	8.14	6,485.4	9,036.5	307.2	15,829.2	14.61	31.75	6.38	20.38	6.48	23.61	-1.76	12.24
Total	9,503,191.2	100.00	44,378.1	28,462.3	4,818.8	77,659.2	100.0	100.0	100.0	100.00				

Source: Own calculations based on European Commission (2007), Annex 3 and 4.

Table 3.4

Distribution of selected expenditures by expenditure heading

2003	**Agriculture**	**Structural operations**	**Internal policies**	**Total**
Net payer MS				
Netherlands	72.1	11.2	16.6	100
Sweden	60.9	27.8	11.4	100
Germany	56.3	36.3	7.5	100
Belgium	60.4	7.0	32.7	100
Luxembourg	30.0	4.4	65.7	100
Austria	72.5	19.3	8.3	100
UK	66.5	23.1	10.4	100
Denmark	84.7	7.3	8.0	100
France	80.0	15.1	4.9	100
Italy	51.3	43.2	5.4	100
Finland	66.4	24.8	8.8	100
Total	*65.1*	*26.6*	*8.3*	*100*
Net beneficiary MS				
Portugal	18.0	78.7	3.3	100
Greece	57.2	39.5	3.3	100
Ireland	74.1	22.8	3.1	100
Spain	41.0	57.1	1.9	100
Total	*43.0*	*54.5*	*2.5*	*100*
Total	***57.1***	***36.7***	***6.2***	***100.0***

Source: Own calculations based on European Commission (2007), Annex 3 and 4.

Table 3.5

Deviation of GNI and selected expenditure headings in shares of member states, 2006

	GNI EUR mn	Distribution in %	Selected expenditures EUR mn				Selected expenditures, distribution in %				Deviation Selected expenditures/GNI in % oints			
			Agriculture	Structural operations	Internal policies	Selected expenditures total	Agriculture	Structural operations	Internal policies	Selected expenditures total	Agriculture	Structural operations	Internal policies	Selected expenditures total
Net payer MS		**(1)**					**(2)**	**(3)**	**(4)**	**(5)**	**(6)=(2)-(1)**	**(7)=(3)-(1)**	**(8)=(4)-(1)**	**(9)=(5)-(1)**
Netherlands	547,889	4.81	1,220.1	463.9	429.4	2,113.4	2.45	1.43	5.77	2.36	-2.36	-3.37	0.96	-2.45
Sweden	307,478	2.70	924.6	308.3	317.9	1,550.7	1.86	0.95	4.27	1.73	-0.84	-1.74	1.57	-0.97
Germany	2,318,830	20.34	6,566.9	4,388.3	1,130.6	12,085.8	13.19	13.56	15.18	13.49	-7.15	-6.78	-5.15	-6.85
Belgium	315,646	2.77	956.1	310.4	784.4	2,050.9	1.92	0.96	10.53	2.29	-0.85	-1.81	7.77	-0.48
Denmark	222,583	1.95	1,164.8	124.9	163.8	1,453.5	2.34	0.39	2.20	1.62	0.39	-1.57	0.25	-0.33
France	1,799,872	15.79	10,091.7	2,235.4	745.5	13,072.6	20.27	6.91	10.01	14.59	4.48	-8.88	-5.77	-1.20
Finland	168,641	1.48	818.2	316.7	121.9	1,256.8	1.64	0.98	1.64	1.40	0.16	-0.50	0.16	-0.08
Austria	253,852	2.23	1,274.9	304.5	229.0	1,808.4	2.56	0.94	3.08	2.02	0.33	-1.29	0.85	-0.21
Italy	1,471,384	12.91	5,486.0	4,531.0	753.5	10,770.5	11.02	14.00	10.12	12.02	-1.89	1.09	-2.79	-0.89
Luxembourg	27,505	0.24	46.3	20.8	110.5	177.6	0.09	0.06	1.48	0.20	-0.15	-0.18	1.24	-0.04
UK	1,924,153	16.88	4,307.8	3,021.4	829.3	8,158.5	8.65	9.34	11.14	9.10	-8.23	-7.54	-5.74	-7.77
Net beneficiary MS														
Greece	190,092	1.67	3,071.2	3,590.5	148.0	6,809.7	6.17	11.09	1.99	7.60	4.50	9.43	0.32	5.93
Lithuania	23,180	0.20	308.8	191.8	227.5	728.1	0.62	0.59	3.05	0.81	0.42	0.39	2.85	0.61
Malta	4,828	0.04	9.4	16.3	10.4	36.0	0.02	0.05	0.14	0.04	-0.02	0.01	0.10	0.00
Latvia	15,721	0.14	136.6	140.6	61.5	338.8	0.27	0.43	0.83	0.38	0.14	0.30	0.69	0.24
Portugal	149,112	1.31	951.3	2,533.9	127.2	3,612.5	1.91	7.83	1.71	4.03	0.60	6.52	0.40	2.72
Estonia	12,570	0.11	75.6	142.5	50.5	268.6	0.15	0.44	0.68	0.30	0.04	0.33	0.57	0.19
Hungary	82,797	0.73	840.9	691.2	128.1	1,660.2	1.69	2.14	1.72	1.85	0.96	1.41	0.99	1.13
Poland	259,104	2.27	2,141.6	1,950.8	275.0	4,367.5	4.30	6.03	3.69	4.87	2.03	3.76	1.42	2.60
Slovakia	42,611	0.37	277.5	268.0	60.5	606.0	0.56	0.83	0.81	0.68	0.18	0.45	0.44	0.30
Cyprus	14,050	0.12	51.4	14.7	22.3	88.5	0.10	0.05	0.30	0.10	-0.02	-0.08	0.18	-0.02
Ireland	151,408	1.33	1,736.4	475.5	209.4	2,421.3	3.49	1.47	2.81	2.70	2.16	0.14	1.48	1.37
Slovenia	29,376	0.26	159.9	91.0	78.5	329.4	0.32	0.28	1.05	0.37	0.06	0.02	0.80	0.11
Spain	960,842	8.43	6,681.4	5,767.0	375.3	12,823.6	13.42	17.82	5.04	14.31	4.99	9.39	-3.39	5.88
Czech Republic	107,477	0.94	498.3	463.6	55.9	1,017.7	1.00	1.43	0.75	1.14	0.06	0.49	-0.19	0.19
Total	*11,401,003*	*100.00*	*49,797.7*	*32,363.0*	*7,445.8*	*89,606.6*	*100.00*	*100.00*	*100.00*	*100.00*				

Source: Own calculations based on European Commission (2007), Annex 3 and 4.

Table 3.6

Distribution of selected expenditures by expenditure heading, 2006

	Agriculture	Structural operations	Internal policies	Total
Net payer MS				
Netherlands	57.7	21.9	20.3	100
Sweden	59.6	19.9	20.5	100
Germany	54.3	36.3	9.4	100
Belgium	46.6	15.1	38.2	100
Denmark	80.1	8.6	11.3	100
France	77.2	17.1	5.7	100
Finland	65.1	25.2	9.7	100
Austria	70.5	16.8	12.7	100
Italy	50.9	42.1	7.0	100
Luxembourg	26.1	11.7	62.2	100
UK	52.8	37.0	10.2	100
Total	*60.3*	*29.4*	*10.3*	*100.0*
Net beneficiary MS				
Greece	45.1	52.7	2.2	100.0
Lithuania	42.4	26.3	31.2	100.0
Malta	26.0	45.2	28.9	100.0
Latvia	40.3	41.5	18.2	100.0
Portugal	26.3	70.1	3.5	100.0
Estonia	28.1	53.0	18.8	100.0
Hungary	50.7	41.6	7.7	100.0
Poland	49.0	44.7	6.3	100.0
Slovakia	45.8	44.2	10.0	100.0
Cyprus	58.1	16.6	25.2	100.0
Ireland	71.7	19.6	8.6	100.0
Slovenia	48.5	27.6	23.8	100.0
Spain	52.1	45.0	2.9	100.0
Czech Republic	49.0	45.5	5.5	100.0
Total	*48.3*	*46.5*	*5.2*	*100.0*
Total	55.6	36.1	8.3	100.0

Source: Own calculations based European Commission (2007), Annex 3 and 4.

Table 3.7

'Winners' and 'losers' by expenditure heading (part 1)

Year	Threefold winner	Twofold winner, one-time loser	One- time winner, twofold loser	Threefold loser
1997	Ireland, Greece, Portugal	Spain, Finland, Denmark	Luxembourg, Netherlands, Belgium, France	UK, Germany, Sweden, Austria, Italy
2003	Ireland, Greece, Portugal	Austria, Denmark, Finland, Spain	Sweden, Netherlands, Belgium, France, Italy, Luxembourg	UK, Germany,
2006	Ireland, Greece, Portugal, Poland, Estonia, Slovakia, Latvia, Lithuania, Hungary, Slovenia	Austria, Denmark, Finland, Spain, Czech Republic, Malta	Sweden, Netherlands, Belgium, France, Italy, Luxembourg, Cyprus	UK, Germany,

Source: Tables 3.1, 3.3 and 3.5.

Table 3.8

'Winners' and 'losers' by expenditure heading (part 2)

Year	Winner in agriculture, loser in structural policy	Loser in agriculture, winner in structural policy
1997	France, Denmark,	Luxembourg, Finland
2003	Austria, Denmark, France, Finland	Italy
2006	Denmark, France, Finland, Austria	Italy, Malta

Source: Tables 3.1, 3.3 and 3.5.

Table 3.9

Estimated deviations from GNI proportions by selected expenditures in 2013

Member state	Share in EU GNI (in %) (1)	Share in Agricultural exp. (in %) (2)	Share in Cohesion exp. (in %) (3)	Deviation Agriculture/GNI (in % points) (4)=(2)-(1)	Deviation Cohesion/GNI (in % points) (5)=(3)-(1)
Net payer MS:					
Belgium	2.72	1.19	0.51	-1.53	-2.21
Denmark	1.83	1.94	0.17	0.11	-1.66
Germany	20.63	12.30	7.15	-8.33	-13.47
Greece	1.84	4.64	5.18	2.81	3.34
Spain	8.11	10.18	8.14	2.07	0.03
France	15.42	16.51	4.03	1.09	-11.39
Ireland	1.16	2.93	0.15	1.78	-1.00
Italy	12.73	9.13	7.92	-3.60	-4.81
Luxembourg	0.21	0.09	0.02	-0.13	-0.19
Netherlands	4.39	1.64	0.54	-2.75	-3.85
Austria	2.17	2.24	0.40	0.06	-1.77
Portugal	1.51	2.02	5.88	0.52	4.37
Finland	1.40	1.49	0.42	0.10	-0.98
Sweden	2.64	1.78	0.53	-0.86	-2.11
United Kingdom	16.72	7.56	2.76	-9.17	-13.97
Net beneficiary MS:					
Bulgaria	0.24	1.71	2.34	1.47	2.10
Czech Republic	1.01	2.35	8.00	1.34	6.99
Estonia	0.10	0.38	1.17	0.28	1.06
Cyprus	0.13	0.12	0.09	-0.01	-0.04
Latvia	0.13	0.53	1.53	0.39	1.39
Lithuania	0.21	1.12	2.26	0.91	2.05
Hungary	0.94	3.36	7.79	2.42	6.84
Malta	0.05	0.03	0.24	-0.03	0.19
Poland	2.33	8.66	20.76	6.33	18.43
Slovenia	0.29	0.46	1.20	0.16	0.91
Slovakia	0.39	1.25	3.71	0.86	3.31
Romania	0.69	4.41	7.11	3.72	6.42
EU-27	100.00	0.00	0.00		

Source: AgraFood East Europe, No. 292, January 2007;
http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_rural_devt_2007-2013_en.pdf;
http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_fisheries_2007-2013_en.pdf;
www.ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-verso.pdf; and own calculations.

Table 3.10

'Winner' and 'loser' member states according to deviations between share in EU GNI and respective expenditures in 2013

Winner in both Agriculture and Cohesion	Loser in both Agriculture and Cohesion	Winner in Agriculture and loser in Cohesion	Loser in Agriculture and winner in Cohesion
Greece, Spain, Portugal, Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, Slovenia, Romania	Belgium, Germany, Cyprus, Italy, Luxembourg, Netherlands, Sweden, UK	Denmark, France, Ireland, Austria, Finland	Malta

Source: Estimation based on Table 3.9.

3.3 Main directions of partial reforms

The current system of expenditures has continuously been the subject of critical analyses, followed by various proposals for change. The following presents an overview of possible changes in the two most important EU policies, Agriculture and Cohesion, which would not fundamentally change the prevailing regime. The changes are analysed focussing on the impact on net financial positions.

- **Agriculture**

More rural development, fewer direct payments

If national envelopes remained unchanged, a shift from direct payments to rural development would not bring about any changes in the net financial positions.

A radical shrinking or termination of direct payments would decisively influence the net financial position of those highly developed member states (France, Denmark, Finland, Austria and Ireland) which traditionally have had a higher share in agricultural expenditures from the EU budget than in the EU GNI (see Tables 3.1; 3.3; 3.5 and 3.9). The extent of their overall 'deficit' vis-à-vis the EU budget would definitely become larger.

In the group of the net beneficiary member states, all except Malta and Cyprus are more or less strongly motivated to maintain the current level of agricultural spending from the EU budget, as they will receive under this heading, when the phasing in of direct payments has been completed, substantially more than their share would be proportionally to their GNI (see Table 3.9).

Introduction of national co-financing

The introduction of co-financing in direct payments (which exists in reality, although provisionally, for the new member states, in the form of national top-ups to EU subsidies) would affect member states asymmetrically, in the same way as described in the discussion of the case for a radical decrease or termination of direct payments. This applies for the case of a possible re-nationalization of direct payments. The impact on net financial positions would also be the same.

- **Cohesion**

Moving away from 'something for everyone' towards focusing on the neediest member states

In this partial reform, the EU would give up its current practice in which virtually each member state has one or more pretences for tapping structural policy/cohesion expenditures. The

structural/cohesion policy should focus on the most needy member states as recipients. This was what the six net-payer member states had been proposing in the overture to negotiations on the 2007-2013 financial perspectives, where they linked their demand for the 1% GNI budget to an appropriate focusing of expenditures.[79] Some experts go even further; one proposal recommends setting the eligibility limit at a level of development equivalent to 50% or below of the EU average per capita GDP.[80] In all likelihood, by 2013 only Bulgaria and Romania will meet this strict criterion if the comparison is made at PPS. If official exchange rates are used, then seven countries will be below the 50% threshold (Hungary, Poland, Slovakia, Lithuania, Latvia, Bulgaria and Romania). If, parallel to this, the 4% GDP proportional ceiling for structural policy expenditures were to be observed, the consequence would be a radical reduction in convergence-enhancing programmes across the board. All this would end in a smaller overall EU budget but more polarized relative net financial positions, as net redistribution across member states would increase.

Shifting support for cohesion from regional to member state level

Another way of achieving moderate reform would be a cohesion policy with less or no support for regional policy and, instead, a focus on less developed member states in general.[81] In this case, highly developed member states with underdeveloped regions would fall out of the circle of beneficiaries of the cohesion policy. The result would be a smaller EU budget, but increased net redistribution across member states with more polarized relative net financial positions.

More support for cohesion at trans-European level

Here, a clear preference would be given to trans-European level projects in spending from the EU budget.[82] Though such projects would largely obscure individual member state benefits, even the projects with the highest European value added are composed of cost positions which eventually have to be accounted for in the individual national accounting systems. Even the most ambitious trans-European projects comprise only a group of the member states. Thus the fight that we see now at member state level for the 'juste retour' would probably change over, at least partly, to a struggle among European regions or groups of involved member states over securing 'their' project within the pool of competing proposals.

Increasing national co-financing

A greater role of national co-financing (public and private) than today would exert pressure towards a more cautious selection of EU-supported projects, as their cost in terms of

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[79] Joint letter (2003).

[80] As a second-best solution, if structural policies cannot be terminated completely. Boldrin and Canova (2003), p. 83.

[81] Krieger-Boden (2002) and Tarschys (2003).

[82] Tarschys (2003), pp. 88-91.

national co-financing would increase. A higher national co-financing rate might become an important tool to achieve higher efficiency of EU-supported projects. The number of EU-supported projects would decrease, and the EU resources tapped would become smaller, especially in the new member states where EU financing of cohesion-related projects may amount to nearly 4% of GDP but where the budgetary constraints to national co-financing are severe. An asymmetric decrease of absorption of EU resources across the member states (more in the less developed than in the highly developed ones) would reduce the net redistribution through the EU budget and would tend towards equalizing the net financial positions vis-à-vis the EU budget. Nevertheless, it is more than unlikely that the less developed member states will ever be ready to agree with this reform without some sort of compensation for the potential loss of a part of the EU resources earmarked for them.

Less aid-like support

Structural policy expenditures typically are unilateral transfers. Profitability requirements in EU co-financed projects are much less rigorous than they would be in the case of market financing. A shift towards financing EU-supported projects more along the lines of credit with subsidized interest payments would increase the overall efficiency of the projects. One 'reductionist' idea that keeps cropping up is the proposal to terminate any support to firms (private and public alike). It is argued that financing businesses' activities should be left to the commercial banking sector. An even more radical notion is to limit expenditures under the EU budget to the funding of essential infrastructure where the existence of a 'European value-added' is beyond any doubt.[83] The consequences of all these ideas for the net financial positions would be exactly the same as described above when addressing the case of increasing national co-financing.

3.4 Comprehensive reform proposals

In the preparatory phase of the 2007-2013 financial perspective, some reform proposals were elaborated which made an attempt to initiate fundamental changes in the prevailing system. As none of these radical proposals were approved, they preserve their actuality.

The Weise proposal

Christian Weise, then researcher of the DIW in Berlin, and his team elaborated four scenarios for 2007-2013.[84] One of these incorporated a radical reform. Agricultural direct payments would be phased out by 2017, after being decreased by 8 percentage points per year from 2005 onwards. New member states would receive 50% of the sum they would have been entitled to as old members. They would be free to allocate the funds received

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83 Boldrin and Canova (2003), pp. 83-84; Martin (2003), p. 30; Steinherr (2003), p. 108; Funck and Pizzati (2003).

84 Weise (2002), pp. 8-12.

according to their own specific priorities, but the competition rules would have to be observed. For the new members, phasing out would take place in 2011-2017. The changes would be radical in structural policy operations as well. While the 4% GDP proportional cap on respective transfers would be maintained, funds would be concentrated on the poorest member states. The qualification rate would rise to 90% of the EU average for the national GDP per capita (from 75% of the EU average of the regional GDP per capita).

The emerging net financial positions, as displayed in Table 3.11, are embarrassing. After all these radical reforms it is remarkable that Germany's per capita 'deficit' vis-à-vis the EU budget would be more than double that of Finland, and close to twice as high as that of France, both member states being at a comparable level of development. What justifies Ireland's highly positive net financial position in 2013, and why would Hungary get 67% more from the EU budget than Slovakia, a member state with equally high per capita GDP?

Table 3.11

Net payments per capita in the case of a substantial reform in the EU-27 in 2013

in EUR

EU-27			
Luxembourg	-204	Portugal	210
Denmark	-82	Greece	319
Netherlands	-73	Slovenia	186
Austria	-68	Czech Republic	281
Belgium	-88	Malta	236
Germany	-128	Hungary	350
Italy	-92	Slovak Republic	217
Finland	-49	Poland	272
Sweden	-117	Estonia	284
UK	-117	Lithuania	269
France	-71	Latvia	253
Cyprus	-42	Bulgaria	216
Spain	-21	Romania	194
		Ireland	182

1) Includes expenditure on the national co-financing of direct payments supporting agricultural incomes.

Source: Weise (2002), Appendix Table 2.

The Quaisser–Hall proposal

Wolfgang Quaisser and John Hall elaborated two radical reform scenarios.[85] The first, labelled *New Financial System plus Agriculture,* operates on the assumption that in 2007 the overall amount of structural policy transfers would be set at 0.35% of the EU GDP.[86]

[85] Quaisser and Hall (2002).

[86] Quaisser and Hall (2002), pp. 57-59.

The funds for structural policy operations would remain at the 2007 level up to 2013 in absolute terms. The allocation of transfers across member states would be radically reformed and made transparent. Funds would be distributed among member states reciprocally, based on a ranking of the member states by per capita GDP in PPS in each financial year. Changes in the ranking would bring about a subsequent rearrangement in the distribution of these funds. A special distribution factor (DF) would be calculated to represent the differences between the EU-average per capita GDP and that of individual member states. Thus, for Poland, whose per capita GDP is substantially below the EU average, the DF would be 2.04, while for Germany, with its above the EU average GDP per capita, the DF would be 0.78. Applying the DF, the total sum earmarked for structural policies could be allocated. The desired slope of the redistribution curve could be adjusted. In order to allocate more funds to the new member states, the square of the DF could be used. Notwithstanding, the 4% GDP proportional ceiling for structural policy spending would be preserved. In the agriculture section of this scenario, the authors adopted the proposals for agriculture set down in the radical reform scenario drawn up by Weise et al. (see above).

Table 3.12

Projected net budgetary positions of selected EU member states and Poland

(in percentage of GNP or GDP: 2007 and 2013)

	Year	France	Germany	UK	Spain	Poland
New Financial System,	**2007**	-0.08	-0.36	-0.34	0.25	3.06
plus Agriculture	**2013**	-0.10	-0.26	-0.25	0.19	2.02
New Financial System,	**2007**	-0.27	-0.32	-0.25	0.18	3.66
Redistribution	**2013**	-0.18	-0.22	-0.17	0.13	2.31

Source: Quaisser and Hall (2002), p. 59.

In the second reform scenario, which the authors labelled *New Financial System, Redistribution*, reforms for the structural policy outlined in the above scenario apply, but in addition, the same rules would also govern the allocation of the agricultural transfers. The authors argued that all efforts to achieve greater transparency and clear allocation rules could be lost if the redistribution scheme currently applied in the field of agriculture were to prevail. As a consequence, the overall net financial positions would be neither fair nor transparent.

The Karlsson proposal

Bengt O. Karlsson elaborated two reform proposals for the 2007-2013 budget of the enlarged EU.[87] The main reform proposal for agriculture was an annual 3.14% reduction of direct payments to farmers from 2007 onwards. The other main reform was to take place in structural policies. Here Karlsson proposed the application of the same rules for each

[87] Karlsson (2002).

member state. That means that a negotiated portion of the EU budget would be set aside for financing the structural policy. The funds would be eligible for each member state but allocation would follow the same rules for all, with the consequence that the EU-15 would lose most of the support the group still enjoyed up to 2006.[88] The 4% GDP proportional ceiling would put a brake on the escalation of spending in the new member states.

As for the net financial positions of member states in the different scenarios, it turns out that agricultural reform would have marginal effects on both large and small net payers and the old cohesion countries. Structural reforms would slightly improve the position of the major net payer member states, substantially improve that of the other net payer countries, seriously deteriorate that of the old cohesion countries and slightly improve that of the new member states.

Table 3.13

Net financial positions in 2013 as a share of GNP/GDP in two scenarios

percentage shares of GNP/GDP

	Digressivity in direct payments	**Same rules for all in structural operations**
Berlin net payers (D, NL, A, SE)	-0.54	-0.48
Net payers without rebate (DK, F, I, FIN)	-0.38	-0.29
Sum	*-0.46*	*-0.38*
UK	-0.25	-0.22
All net payers	*-0.42*	*-0.35*
Cohesion countries (EL, IRL, E, P)	1.04	0.38
EU administrative countries (B, L)	0.87	0.99
EU-15 total	***-0.21***	***-0.23***
Baltic (EE, LT, LV)	5.14	5.44
Visegrád (PL, HU, CZ, SK)	3.67	3.92
Slovenia	0.15	0.29
Island states (CY, MT)	0.17	0.29
BG + RO	6.45	6.72
New MS total	***3.79***	***4.03***
EU enlarged	***0.00***	***0.00***

Source: Karlsson (2002), p. 80.

It is important to see that the net position of the new member states is around + 4% of GDP in both scenarios. The message seems to be clear: in the medium term, reform is in the interest of the net payer old member states. Old cohesion countries are discouraged, while new member states are indifferent to change, certainly only from the narrow fiscal

[88] Karlsson (2002), p. 64.

point of view. Apart from the scenarios, Karlsson proposes the introduction of a generalized correction mechanism to address the problem of excessively negative net financial positions.[89]

The reform proposals of the high-level study group headed by André Sapir

André Sapir and his team elaborated a detailed reform agenda for the EU at the initiative of the President of the European Commission in 2003.[90] The group recommended a radical restructuring of the EU budget to support the growth agenda in line with the Lisbon objectives.[91] The overall size of the EU budget in terms of the EU GNI would remain at its current level: i.e. about 1%. Agricultural expenditures would be reduced sharply and decentralized to member states (re-nationalization).

This reform agenda proposes that expenditures be re-organized into three funds:

- Fund to promote growth through expenditures on R&D, education & training, and cross border infrastructure
- Convergence fund to help low income countries catch up
- Fund to support economic restructuring

Table 3.14

Expenditures in the financial period 2007- 2011

Expenditure funds	% of EU GDP
Growth	**0.45**
R&D	0.25
Education & Training	0.075
Infrastructure	0.125
Convergence	**0.35**
new members	0.2
old members	0.1
phasing out for macro regions	0.05
Restructuring	**0.2**
displaced workers	0.05
agriculture	0.05
phasing out of agricultural expenditure	0.1
Total	**1.00**

Source: Sapir (2003), p. 168.

It further proposes that sources for growth be allocated to recipients on a competitive basis. Transfers from Convergence should target member states (not regions) that qualify for

89 Karlsson (2002), pp. 96-99.

90 Sapir (2003).

91 Sapir (2003), pp. 166-168.

such transfers on the basis of criteria linked to per capita income levels. Funds for restructuring should be made available to individual citizens anywhere in the EU, based on their economic circumstances. On the revenue side of the budget, national treasury contributions should be eliminated and replaced by a EU-level tax. The group proposes introducing qualified majority decisions on multi-annual budgetary guidelines.

The Sapir report did not address the problem of the net financial positions of member states. Nevertheless, from Table 3.14 it can be seen that about 20% of the total EU budgetary expenditures would be allocated to new member states under the heading Convergence, and only 10% to old member states. In the last year of the current financial perspective, in 2013, 35.7% of the total expenditures will be allocated for Cohesion, and about half of this, 17.9%, will go to new members. That makes it likely that if the reforms proposed by the Sapir group had been introduced, the net financial position of the new member states would not have deteriorated compared to the situation that will evolve under the current budgetary rules by 2013.

The Richter-Szemlér proposal

Tamás Szemlér and the author of this paper put forward a comprehensive reform proposal in 2005 with the purpose of minimizing the 'juste retour' motivated disputes in the decision-making process concerning the 2007-2013 financial perspectives.[92] Three important changes were proposed: first, a changeover to a completely GNI-based own resources system, a step that would guarantee that the member states contribute to the common budget exactly according to their relative prosperity. Contributions would be paid by a uniform rate, a certain percentage of the national GNIs, directly from the national budgets. The second step would be the introduction of national co-financing in the area of direct payments for farmers. This change would diminish the relative advantage of those member states which benefit well above average from the CAP. Finally, we proposed the introduction of the generalized correction mechanism in the form presented by the Commission.[93] This would certainly bring about the abolishment of the UK rebate and the rebate on the UK rebate for four member states. Each of these steps would have pointed towards a redistribution across member states with a strongly reduced opportunity left for 'juste retour' motivated claims.

The Slovene task force proposal

In late 2007 two radical reform scenarios for the EU budget in the post-2013 period were elaborated in Slovenia by a taskforce.[94] The reform scenarios are also radically different from each other. The 'Restrictive scenario' would reduce the size of the EU budget from

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[92] Richter and Szemlér (2005).

[93] See Chapter 4.

[94] Mrak et al. (2007).

0.99% of the EU GNI in 2007-2013 to 0.71 to 0.82%, depending on further enlargements. Cohesion Fund and Structural Fund support would be eligible only for member states with per capita GNI below 90% of the EU average, the Competitiveness objective would be abolished, CAP expenditures radically reduced. On the revenue side of the budget the VAT-based resource would be abolished, just as the UK rebate. The 'Community scenario' would inflate the EU budget to 1.22-1.25% of the EU GNI, again depending on the enlargement. In the Convergence objective the upper limit of transfers would be raised to 4% of GNI, in the Competitiveness objective aid intensity would be raised by 30%. CAP would not be seriously decreased. On the revenue side the UK rebate would be abolished and 50% of the revenues would be covered by a genuine VAT resource.[95] A correction mechanism for ensuring equitable net financial positions is a precondition for the feasibility of the scenarios. The authors chose a slightly revised version of the ex-post correction mechanism put forward by de la Fuente and Doménech, a proposal discussed in the next chapter.[96]

Another comprehensive reform proposal published recently will be presented in the next chapter, as its central idea is related to the correction mechanism, the topic of that chapter.

To sum up, some of the comprehensive reforms reviewed here would have been able to ease the tensions coming from excessive net financial positions but none of them provided a scheme which would get to the root of this problem and solve it once and for all.

4 The generalized correction mechanism – a 'morning-after pill' to treat excessive financial positions

As mentioned in Chapter 1, in the course of the preparatory activities for the 2007-2013 financial perspective the Commission elaborated a proposal for a generalized correction mechanism (GCM) to address the problem of individual member states' possibly running up excessive deficits vis-à-vis the EU budget.[97] The GCM has two basic elements: (a) a threshold expressed as a share of each member state's GNI; and (b) a compensation mechanism. In the first instance, should a member state record a negative net financial position above that threshold, the correction mechanism is triggered. In the second instance, the compensation mechanism shows what share of the deficit above the threshold should be (partially) reimbursed to the member state concerned. Finally, a ceiling is set for the total sum of reimbursements; when this sum is surpassed, then the threshold is raised so that the correction mechanism is only triggered when a higher deficit is incurred.

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[95] Mrak et al. (2007), pp. 24-27.

[96] De la Fuente and Doménech (2001).

[97] European Commission (2004a), p. 25.

The Commission proposed the following parameters for a generalized correction mechanism:[98]

- categories of revenue to be taken into account (VAT + GNI) remain unchanged;
- expenditure headings in the allocated expenditure remain unchanged;
- all member states participate in the financing of the global amount of the corrections, with financing to be based on GNI shares;
- the threshold level is proposed to be set at -0.35% of GNI;
- the maximum available refund volume could be set at EUR 7.5 billion;
- the refund rate will be the dependent variable with a maximum rate of 66%, to be reduced automatically when the agreed maximum refund volume is exceeded in a given year.

Table 4.1 displays the Commission's estimates of the net budgetary balances for the EU-25, shown at different hypothetical thresholds ranging from zero up to -0.5% of a member state's GNI in the period 2008-2013. Bulgaria and Rumania were not yet part of the calculation. As already mentioned, the Commission proposed a threshold of -0.35% of GNI. Applying this threshold, 15 member states display positive budgetary balances (annual averages for the period 2008-2013). Belgium and Luxembourg are included in that number on account of the European institutions operating on their territories.[99] Of the 13 other net beneficiaries, two Baltic states, Latvia and Lithuania, would have a positive net financial position amounting to nearly 4.5% of their annual GNI in that period. The next group of beneficiaries consists of member states with net positions between 3 and 4% of their GNI (both Poland and Estonia with 3.79%, Slovakia with 3.3%, the Czech Republic with 3.2% and Hungary with 3.09%). Two of the four more developed new members and two old cohesion countries would have net positions ranging between 1% and 2.2% of their GNI (Slovenia 1.34% and Malta 1.1%, Greece 2.19% and Portugal 1.54%). Finally, one solitary new member, Cyprus, would have to cope with a negative net position: -0.33%. Surprisingly, Ireland, a country that has become one of the richest EU members over the past one and a half decades, would record a positive net position of 0.5% of its GNI.

As a consequence of the generalized correction mechanism, the worst net positions would be equivalent to around half a percent of GNI of the member states concerned. The most negative positions would occur in the UK (-0.51%), the Netherlands (-0.48%), Germany (-0.48%), Sweden (-0.45%) and Austria (-0.41%). As the data of Table 4.2 show, Germany, Sweden and the Netherlands would have a better position under the GCM than either without any correction mechanism or in the case that the UK rebate prevailed. The

[98] European Commission (2004b), pp. 38-39.

[99] That means that net financial position is defined differently in the Commission's exercise than in this paper. Administrative expenditures are taken into consideration as a component of overall expenditures, contrary to the operational balances used in other instances by the Commission and also in this paper, where these expenditures are excluded.

opposite case is true for Austria, since its position would have been better in both alternative cases than with the GCM. The application of the GCM would place the UK in a deteriorating position compared to the one it would have if its own rebate were maintained, but a better one compared to a system without any correction mechanism. All but four member states (the UK, Germany, the Netherlands and Sweden) would fare worse if the GCM were introduced compared to a situation without any corrections. Nevertheless, if net financial positions under the GCM are compared to those with the UK rebate remaining unchanged, we see that only Austria and certainly the UK would fare better.[100]

Thus, in the course of negotiations the elementary interest of the great majority of member states was to eliminate the UK rebate *and* not to introduce the GCM. However, the future of the UK rebate remained open up to the very last day before the agreement on the new financial perspective, while the GCM was rejected by several member states in the first rounds of negotiations about the new financial perspective. Thus, in the end, the UK rebate remained, even if in a somewhat alleviated version, and the problem of how to avoid excessive net financial positions was solved in a non-rule-based way, with the help of a number of ad hoc exemptions (see end of Chapter 1).

A special edition of the correction mechanism was proposed by the Padoa-Schioppa report[101] where excessive positive net financial positions would be corrected as well. Another proposal by de la Fuente and Doménech (2001) envisages a multi-stage procedure in the budgeting process. First, the desired level of redistribution would be agreed upon, from which indicative net balances could be derived for each member state. These will have to be inversely correlated to prosperity of the member states. Next, expenditures would be allocated without regarding the net member state positions. Finally, a correction mechanism is applied which helps to arrive at the originally fixed net financial positions.

The most recent and comprehensive reform proposal based on a correction mechanism was put forward by the ZEW research team headed by Friedrich Heinemann.[102] The core of the proposal is a generalized, but limited correction mechanism (GLCM). Another important proposal is the acceptance of the GNI resource as the dominant and permanent source of the EU budget revenues.

In this concept there are two baskets. In the first basket those policies with distributive effects are included which are either not measurable or are politically accepted. Such policies belong here where the expenditures cannot be allocated to individual countries due to the nature of payments, such as external policies or policies where the target has European public good properties (environmental spending) or where benefits of individual

[100] For a more detailed evaluation, see Somai (2005), pp. 22-24.

[101] Padoa-Schioppa (1987).

[102] ZEW (2007), pp. 130-145.

member states are identifiable and differ substantially and are far from being proportional with the prosperity of the member states, but these differences are desirable (regional convergence). The second basket comprises EU policies whose distributive effects are not regarded as acceptable (CAP). Here a correction mechanism would re-write the resulting distribution profile associated with EU policies rendered to the second basket.

Does the generalized correction mechanism have a chance for a comeback in the post-2013 discussions? If the UK still has the opportunity to prolong its rebate, then the support of the GCM will be expedient for the great majority of the member states. If it turns out early enough that the UK has no chance to maintain its rebate, then the majority will have an interest in pushing the 'no corrections at all' scenario. Nevertheless, in this case strong resistance from Germany, the Netherlands, Sweden and the UK must be reckoned with.

Net beneficiary positions change only to a minimum extent, but already a marginal deterioration may motivate some member states to argue against the GCM, even if the real reason will be disguised by some rhetorical turns about the petty-minded juste retour approach incorporated in the GCM. A justified fear may be that in the longer term the GCM equalizes the burdens of major and minor payers, actually putting a cap on 'deficits' vis-à-vis the EU budget, and that leads to a higher burden of medium-income EU members, which may lose their net beneficiary status earlier than in the case without the GCM.[103] Nevertheless, with fine tuning of the rules of the game (the threshold chosen, the rate of reimbursement, the ceiling on reimbursement), the outcome of the correction can be influenced in a sufficiently flexible way. The unbeatable advantage of the GCM, however, is that it would make all fights for changing the rules or achieving exemptions both on the own resources and on the expenditure side of the EU budget superfluous, because all real or only virtual 'anomalies' in member state positions could be amended in a final round within the framework of the GCM. In this case, reforms could be discussed with regard to their expected merits, i.e. decoupled from pondering their impact on any member state's net financial position.

The idea of the GCM was born to deliver a remedy to certain disproportions in the sharing of burdens. The problem is that the solution proposed, actually a cap on financial burdens allowed to be charged on member states, while eliminating one kind of disproportion, creates other ones. If it is applied in future, the allocation of burdens will be fairer than before but they will not be proportional to the relative prosperity of member states. The bigger the role this tool plays, the greater the disproportions caused by it will be.

[103] I owe Tamás Szemlér for this observation.

Table 4.1

Estimated net budgetary balances for all member states (annual averages 2008-2013)

in % of GNI

	Without correction	With the UK rebate as applied in 2000-2006	Generalized Correction Mechanism with threshold levels							
	(1)	**(2)**	**0.00%**	**-0.10%**	**-0.20%**	**-0.25%**	**-0.30%**	**-0.35%**	**-0.40%**	**-0.50%**
Belgium	1.32%	1.21%	1.10%	1.16%	1.21%	1.23%	1.25%	**1.26%**	1.28%	1.31%
Czech Republic	3.26%	3.17%	3.04%	3.10%	3.15%	3.17%	3.19%	**3.20%**	3.22%	3.25%
Denmark	-0.20%	-0.31%	-0.29%	-0.30%	-0.30%	-0.29%	-0.27%	**-0.26%**	-0.24%	-0.21%
Germany	-0.52%	-0.54%	-0.41%	-0.42%	-0.44%	-0.45%	-0.46%	**-0.48%**	-0.49%	-0.53%
Estonia	3.85%	3.76%	3.63%	3.68%	3.73%	3.76%	3.77%	**3.79%**	3.80%	3.83%
Greece	2.25%	2.16%	2.03%	2.09%	2.14%	2.16%	2.18%	**2.19%**	2.21%	2.24%
Spain	0.32%	0.23%	0.10%	0.15%	0.20%	0.23%	0.25%	**0.26%**	0.28%	0.30%
France	-0.27%	-0.37%	-0.32%	-0.34%	-0.35%	-0.36%	-0.35%	**-0.33%**	-0.32%	-0.29%
Ireland	0.56%	0.47%	0.35%	0.40%	0.45%	0.47%	0.49%	**0.51%**	0.52%	0.55%
Italy	-0.29%	-0.41%	-0.34%	-0.35%	-0.36%	-0.37%	-0.36%	**-0.35%**	-0.34%	-0.31%
Cyprus	-0.28%	-0.37%	-0.31%	-0.32%	-0.33%	-0.33%	-0.33%	**-0.33%**	-0.32%	-0.29%
Latvia	4.51%	4.40%	4.29%	4.34%	4.39%	4.41%	4.43%	**4.45%**	4.46%	4.49%
Lithuania	4.50%	4.41%	4.28%	4.33%	4.38%	4.41%	4.43%	**4.44%**	4.46%	4.48%
Luxembourg	5.89%	5.80%	5.67%	5.73%	5.78%	5.80%	5.82%	**5.83%**	5.85%	5.88%
Hungary	3.15%	3.06%	2.93%	2.98%	3.04%	3.06%	3.08%	**3.09%**	3.11%	3.14%
Malta	1.16%	1.06%	0.94%	0.99%	1.04%	1.06%	1.08%	**1.10%**	1.11%	1.14%
Netherlands	-0.55%	-0.56%	-0.41%	-0.43%	-0.44%	-0.45%	-0.46%	**-0.48%**	-0.50%	-0.53%
Austria	-0.37%	-0.38%	-0.34%	-0.36%	-0.37%	-0.38%	-0.39%	**-0.41%**	-0.40%	-0.39%
Poland	3.85%	3.76%	3.63%	3.69%	3.74%	3.76%	3.78%	**3.79%**	3.81%	3.84%
Portugal	1.60%	1.50%	1.38%	1.43%	1.48%	1.50%	1.52%	**1.54%**	1.55%	1.58%
Slovenia	1.40%	1.31%	1.18%	1.23%	1.28%	1.31%	1.33%	**1.34%**	1.36%	1.38%
Slovakia	3.36%	3.27%	3.14%	3.20%	3.25%	3.27%	3.29%	**3.30%**	3.32%	3.35%
Finland	-0.14%	-0.25%	-0.26%	-0.27%	-0.25%	-0.23%	-0.21%	**-0.20%**	-0.18%	-0.15%
Sweden	-0.47%	-0.50%	-0.38%	-0.39%	-0.41%	-0.42%	-0.43%	**-0.45%**	-0.46%	-0.48%
United Kingdom	-0.62%	-0.25%	-0.44%	-0.46%	-0.47%	-0.48%	-0.49%	**-0.51%**	-0.53%	-0.56%

Source: European Commission (2004), pp. 37 and 71.

Table 4.2

Comparison of net final positions with and without correction mechanisms

Member state	Without correction (in % of GNI)	With the UK rebate as applied in 2000-2006 (in % of GNI)	GCM with -0.35% threshold (in % of GNI)	Comparison UK rebate vs. without correction (% points)		Comparison GCM vs. without correction (% points)		Comparison GCM vs. UK rebate (% points)	
	1	2	3	4=2-1		5=3-1		6=3-2	
				better	worse	better	worse	better	worse
Belgium	1.32	1.21	1.26		-0.11		-0.06%	0.05	
Czech Rep.	3.26	3.17	3.20		-0.09		-0.06%	0.03	
Denmark	-0.20	-0.31	-0.26		-0.11		-0.06%	0.05	
Germany	-0.52	-0.54	-0.48		-0.02	0.04		0.06	
Estonia	3.85	3.76	3.79		-0.09		-0.06%	0.03	
Greece	2.25	2.16	2.19		-0.09		-0.06%	0.03	
Spain	0.32	0.23	0.26		-0.09		-0.06%	0.03	
France	-0.27	-0.37	-0.33%		-0.10		-0.06%	0.04	
Ireland	0.56	0.47	0.51		-0.09		-0.05%	0.04	
Italy	-0.29	-0.41	-0.35		-0.12		-0.06%	0.06	
Cyprus	-0.28	-0.37	-0.33		-0.09		-0.05%	0.04	
Latvia	4.51	4.40	4.45		-0.11		-0.06%	0.05	
Lithuania	4.50	4.41	4.44		-0.09		-0.06%	0.03	
Luxembourg	5.89	5.80	5.83		-0.09		-0.06%	0.03	
Hungary	3.15	3.06	3.09		-0.09		-0.06%	0.03	
Malta	1.16	1.06	1.10		-0.10		-0.06%	0.04	
Netherlands	-0.55	-0.56	-0.48		-0.01	0.07		0.08	
Austria	-0.37	-0.38	-0.41		-0.01		-0.04		-0.03
Poland	3.85	3.76	3.79		-0.09		-0.06%	0.03	
Portugal	1.60	1.50	1.54		-0.10		-0.06%	0.04	
Slovenia	1.40	1.31	1.34		-0.09		-0.06%	0.03	
Slovakia	3.36	3.27	3.30		-0.09		-0.06%	0.03	
Finland	-0.14	-0.25	-0.20		-0.11		-0.06%	0.05	
Sweden	-0.47	-0.50	-0.45		-0.03	0.02		0.05	
UK	-0.62	-0.25%	-0.51	0.37		0.11			-0.26

Source: Table 4.1, own calculations.

5 Proposal for a radical reform

5.1 The main idea, the guiding principles and a summary of the proposal

The main idea behind the reform is that no solution to the current problems of the cross member state redistribution in the EU which ignores the member states' open or disguised endeavour to achieve 'juste retour' will ever be feasible. The way to a lasting solution leads through the acknowledgement that this endeavour exists and ultimately governs member state attitudes. The reforms which have a chance for success are those which sufficiently satisfy the member state claims concerned.

The three *guiding principles* of the proposed new EU budgetary system are:

- fair sharing of burdens across member states, citizens and firms;
- clear and simple rules for the collection of revenues and allocation of expenditures, without exemptions;
- maximum possible flexibility in the utilization of resources from the EU budget.

The following is a summary of the proposed new system:

New rules for cross member state redistribution

- Member state receipts are determined by the per capita average EU GNI, the same value for each member state. Member state contributions are determined by the member state per capita GNI, being different through differences in relative member state prosperity.
- Differences in net financial positions of individual member states are determined solely by differences in relative prosperity, clearly measurable through the per capita GNI indicator.
- Solidarity of member states is expressed on the revenue side of the Community budget through higher per capita contributions by more well-to-do member states and on the expenditure side through different purchasing power of the same per capita transfer in less prosperous member states than in the more prosperous ones.

Revenues of the EU budget

- The contribution from each member state is fixed as a unified rate (1%) of the member state GNI.
- The contributions in each member state are collected via a splitting up of a pre-fixed share of collected VAT and corporate income tax revenues. Should revenues from both taxes surpass the pre-set sum of the member state contribution, the surplus will be re-channelled to the member state‘s treasury.

Expenditures of the EU budget

- Each citizen of the EU ‘receives’ a certain share (1%) of the average per capita EU GNI each year. Receipts from the EU budget at member state level would amount to 1% of the average per capita EU GNI multiplied by the number of inhabitants in the member state concerned.
- Receipts from the EU budget can be utilized to finance eligible programmes along various EU policies, but not for any other purposes.
- Each member state enjoys maximum flexibility in the allocation of its resources from the EU budget across eligible targets.
- The new rules for the allocation of expenditures across member states open the door for **more flexibility** than currently in the allocation of resources from the EU budget across eligible targets.

5.2 The proposal in detail

Rules of cross-member state redistribution

One of the two cornerstones of the proposed system is the EU-27 average per capita GNI, at market/official exchange rates.[104] Each member state would annually receive a transfer from the EU budget that corresponds to 1% of the *EU average per capita* GNI multiplied by the number of inhabitants in the member state concerned. The revenues of the EU budget would be secured through contributions from the member states, which would amount to 1% of the *member state* GNI, the second cornerstone of the reform. Member states with higher than EU average per capita GNI would thus be net payers, those with lower than EU average per capita GNI would be net beneficiaries. Net contributions and receipts, respectively, would clearly reflect the difference in relative prosperity of the member states.

The proposal is illustrated by a practical example for 2006. 1% of the EU-25 per capita GNI in 2006 amounted to EUR 245 (see Table 5.1). Finland, with its about 5.3 million inhabitants, would have received from the EU budget, if the proposed system had been applied in that year, EUR 1,293 million. 1% of Finland's per capita GNI amounted to EUR 320; thus the country's contribution to the EU budget would have been EUR 320 times the number of inhabitants, that is EUR 1,686 million. The *per capita* net financial position would have been EUR -75, that of Finland EUR -394 million. Taking a net beneficiary member state with a per capita GNI below the average of the EU as an example, Latvia would have received from the EU budget the same amount as Finland, EUR 245 for *each* of its about 2.3 million inhabitants, altogether EUR 561 million. Latvia's contribution in that year would have been 1% of its GNI, EUR 157 million (EUR 69 per capita), which would have led to a positive net financial position ('surplus' vis-à-vis the EU budget) of EUR 404 million, i.e. EUR 177 for each inhabitant in Latvia.

The 1% key applied in the proposal is chosen arbitrarily, but its feasibility is proven by the funds allocated in the 2007-2013 financial perspectives. This key can be higher or lower than 1%, but it is important that it be a unified rate both across member states on the revenue side and for the aggregate GNI of the EU on the expenditure side of the EU budget.

In the proposed system, the net financial position of any member state is the result of real financial flows; whereas payments to the EU budget would be mandatory and fixed *ex ante*, transfers from the EU budget would only be disbursed conditionally, for project financing. That means that limited absorption capacity would negatively influence the net financial position of the member states concerned, since 'deficits' would be bigger or 'surpluses' smaller, respectively, than those calculated *ex ante*.

[104] A similar solution for allocating the expenditures of the EU budget was put forward in Quaisser and Hall (2002) based on GDP of individual member states multiplied by a coefficient. For details of their proposition in this paper see Chapter 3.

The above outlined scheme for the new rules of the cross member state redistribution constitutes the primary level of the reform proposal. This scheme can be put into practice with various practical solutions for collecting the revenues for the EU budget and the allocation of expenditures from the budget. In the following, secondary level of the reform proposal, concrete modalities for the collection of revenues and the allocation of expenditures are put forward. These are to be regarded as supplementary to the primary idea which itself is not dependent on the approval of these recommendations.

Revenues of the EU budget

The *value of contribution* from member states would be exactly defined through the rules above. Contributions would be collected, contrary to the current system, from the *citizens* and *firms*, respectively, in each member state. A pre-fixed share, half or two thirds, of the required sum would come from re-channelling a part of the *VAT tax revenues*, the other half or one third from a part of *corporate income tax* revenues, both collected by the national authorities in each member state. There would be no direct EU tax introduced; revenues from two long-existing taxes would be split up between domestic and EU destinations. To make this clear for the EU citizens, all invoices with VAT rates would have to display the *national* and the *EU* tax rates separately, and a similar solution would have to be found for securing the visibility of the split between the EU versus national components in the corporate income tax revenues as well. This solution combines the exactness of national account calculation (1% of GNI) with the fulfilment of the request to leave the national treasuries out of the game.[105] Simultaneously it would raise the sensibility of EU citizens through direct and visible participation in EU budgetary processes. Furthermore, tax on corporate profits partially re-channelled for the EU budget would fulfil the justified request that those who benefit the most from the unified European market (the business sector) should contribute directly to the maintenance of the system. It is important to find the appropriate tax rates which guarantee that the revenues channelled to the EU budget are sufficient in any year to cover the pre-fixed sum of the member state contribution. The part of revenues earmarked for the EU which surpass the pre-fixed sum of the member state contribution would be re-channelled to the member state treasury.

Expenditures of the EU budget

In the new system, expenditures for individual member states would be fixed *ex ante*. For each member state, transfers from the EU budget as calculated above should be made available solely for financing eligible expenditures in the framework of EU policies, i.e. these transfers must not be disbursed for any other purposes than those agreed upon by the member states. That means that member states would dispose of a ‘basket’ whose internal

[105] This solution is similar to Iain Begg’s proposition to cap the gross contributions by member states and allow each member state the free choice to select the sort of European tax which is thought to be the most suitable for the member state concerned. Begg (2007), p. 17.

proportions could be determined in optional ways. The new system allows both the allocation of expenditures according to uniform proportions in a highly centralized way directly from Brussels or a high grade of flexibility with member states' individual patterns of allocation across eligible spending targets. The author of this paper thinks that increased flexibility, compared to the current situation, in the allocation of EU expenditures across EU policies/targets in individual member states would be an important asset of the proposal. The question remains, however, what extent of freedom should be given to national governments at this juncture. Without doubt, the changeover to the new system would open discussions about the rationale of the budgetary expenditures. In the current system discussions about and member state attitudes on the various EU policies financed from the Community budget are strongly motivated by the unspoken deliberations concerning the member state net financial positions. As these considerations necessarily vanish in the new system, a new chapter can be opened in the discussion on terms such as the European value added, subsidiarity. A complete reconsideration of agricultural support, structural policies and expenditures to enhance competitiveness will become possible.

Due to the special features of supports in agriculture, a relatively restrictive regulation may become necessary in that field.[106] In one possible scenario, expenditures in the framework of CAP are maximized and regulated in detail, but all other expenditures are liberated from constraints of allocation across eligible spending targets. In a second, less liberal scenario, the proposals made by the Sapir group for the expenditure side of the budget are adapted with the headings *Growth* (R&D, education and training, infrastructure), *Restructuring* (displaced workers, if not otherwise regulated also agriculture) and *Convergence*.[107] Individual headings and sub-headings may be earmarked with a maximum and minimum share in total spending, so that all EU policies will get sufficient attention but individual member state preferences can yet be satisfied.

TOR, administrative and extra-EU expenditures

The proposal addresses only the core areas of the EU budget. On the revenue side it does not involve the traditional own resources, on the expenditure side the expenditures for administration and targets outside the European Union. These areas should be regulated separately, as much as possible, from the areas where cross member state redistribution is involved.

[106] Direct payments for farmers are compulsory expenditures. If this expenditure heading were to survive the changeover to the new regime, it would draw on a considerable share of total expenditures in those member states where agricultural support is particularly important. The share of direct payments (as allocated in the financial perspective for 2013) in the hypothetical total expenditures in 2013 under the new regime is displayed in Annex 3. The only real problem case would be Ireland where direct payments would reach 94% of total allocated expenditures under the new regime. The next highest shares would be those of Denmark (57%) and Greece (53%).

[107] Sapir (2003), p. 168.

Traditional own resources made up 11% to 15% of total EU budgetary revenues between 2000 and 2006. These revenues were able to match *administrative expenditures* and *extra-EU expenditures* combined, amounting to about 10% in the same period. That makes it likely that in the post-reform era only the residual financial needs of this separate circle should be covered from other revenues of the EU budget, if at all, imposing only a marginal burden on the expenditure side. If the TOR revenues were not sufficient to cover administrative and external expenditures, the value of total available expenditures for cross member state allocation would have to be diminished.

The size of the EU budget in the current financial perspective amounts exactly to 1% of the EU GNI in payments appropriations (1.048% in commitment appropriations), see European Council (2007). Nevertheless, that 1% includes traditional own resources on the revenue side and expenditures for administration and extra-EU spending on the expenditure side. That means that in the reformed system, in the case of a 1% unified rate, the overall EU budget related to the EU GNI would be about 1.1%, i.e. about 0.1 percentage point higher than in the current one, but, as will be shown later, the net redistribution across member states would be smaller in the proposed new than in the current system.

The reform could be introduced from 2014 on at the earliest. After the decision to introduce the reform, financial perspectives in their current form would lose justification. A central issue would be the calculation of member state GNI *ex post* for setting up the framework for financial flows to and from the EU budget and the forecasting activity to estimate future financial flows for the next three to five years.

In the current system of cross member state redistribution, a substantial part of available transfers are not tapped. The reason may be unsatisfactory absorption capacity as well as the rigid rules of the expenditure allocation. The flexibility of the reformed system facilitated by free allocation of available resources from the EU budget across the eligible spending targets would likely result in less unspent resources. Nevertheless, a regulation would have to be elaborated for the handling of unspent resources. As currently, after a certain period of time (two or three years after the year of commitment) the funds would not be available for the member state concerned. The best solution would be to 'recycle' these funds in the overall pool of funds available for allocation across member states in any year.

The system proposed would be able to accommodate further enlargements without any changes of the rules. The accession of relatively poor member states would decrease the average per capita GNI in the EU and consequently the available expenditures from the EU budget would be reduced and the net financial position of each member state would deteriorate proportionally (bigger 'deficits' for net payers and smaller 'surpluses' for net beneficiaries). The accession of highly developed new members would have the opposite effect.

5.3 Main differences between the current and the proposed new system

Current	*Proposed*
Contributions to the EU budget reflect the relative economic strength of the member states only indirectly, through complicated adjustment calculations (notional VAT component) and not exactly.	Member state contributions to the EU budget reflect economic strength directly and exactly.
Member state contributions are paid by national treasuries. This supports the 'juste retour' attitude; further, citizens of the EU and businesses are not involved in the cross member state redistribution.	Member state contributions are paid directly by taxpayer citizens and businesses (part of the VAT and corporate income tax revenues). National treasuries are involved only indirectly (national tax revenues reduced by the segment re-channelled to the EU budget).
Expenditures are allocated for the implementation of various policies in individual member states. Eligibility for individual groups of expenditures financed by the EU budget differs widely by member state. The extent of receipts may largely diverge across member states, especially in the case of net payer member states, even if they are at a similar level of development. This divergence makes a system of non-rule-based regulation (rebates and exemptions) necessary to avoid extreme negative net financial positions, or in the future, a generalized correction mechanism to remedy the problem.	Expenditures for the implementation of various policies in the member states are fixed by a unified rate on the per capita average GNI of the EU; therefore each citizen in the EU receives the same value of support, irrespective of where he/she dwells. EU policies can be implemented within the financial framework calculated for each member state (EU average per capita GNI multiplied by the number of population). As the size of expenditures in any member state is the function of the population size only and member state contributions clearly reflect the relative economic strength of the member states, there is no longer a need for any non-rule-based regulation or a generalized correction mechanism in the future.
Expenditures are allocated according to strict rules and fixed headings and sub-headings. Flexibility in terms of free allocation of EU resources across potential targets is fairly limited. A mismatch of the utilization framework and individual member state needs may lead to under-utilization of resources (unconsumed funds).	The new system allows an unprecedented flexibility in the implementation of EU policies in the individual member states and that may bring about a substantial improvement in the utilization of EU resources.

5.4 Estimated net financial positions emerging after the reform

In Table 5.1 the proposed system was tested relying on 2006 GNI data and a comparison with the real life net financial positions of individual member states in that year. It is important to point out that the GNI data used in the estimations are in euros, at the official exchange rate and not at purchasing power standard (PPS)[108]. In 2006 the GNI of the EU-25 amounted to EUR 11,401 billion; the aggregate number of inhabitants was 464 million. 1% of the per capita GNI of the EU-25 amounted to EUR 245.5. This sum would have been made, indirectly, available for each EU citizen from the EU budget. Available resources for individual member states would have been the product of EUR 245.5 and the population in the member state concerned. Contribution from individual member states would have amounted to 1% of their 2006 GNI. The net financial positions are calculated as the difference of the respective financial flows to and from the EU budget. In the reformed system there would have been 12 net payer member states and 13 net beneficiaries, in contrast to the real life situation with 11 net payers versus 14 net beneficiaries. In the new system, Ireland would have been a massive net payer, contrary to the facts in 2006. The sum of net financial redistribution would have been EUR 15,427 million, 0.14% of the EU-25 GNI in that year. This is smaller than the respective factual figures in 2006, EUR 18,466 million or 0.16% of the EU-25 GNI (see Table 1.9).

1% of the per capita GNI in the net payer member states ranged from EUR 595 (Luxembourg) to hardly above the average, EUR 250 (Italy). Net beneficiary member states had respective values from the most prosperous, EUR 218 (Spain), to the two least prosperous member state, EUR 68 (Lithuania).

Per capita net financial positions under the new system would have been partly similar to, partly different from the real net financial positions in 2006 (see also the summary in Table 5.3). Among the net payer member states, the Netherlands, Germany and Italy would have experienced significant, France only marginal, improvement, while Luxembourg and Denmark would have experienced substantial, the UK, Finland, and Austria moderate, deterioration. Sweden's position would have remained practically unchanged. As already mentioned, Ireland would have become a net payer member state under the new regime.

It is difficult to assess changes in the group of the net beneficiary member states. The reason for this is that in 2006, direct payments were still in an early stage of the phasing in

[108] Results of estimations made in PPS show that the difference between more prosperous and less prosperous member states is substantially smaller than in the case of calculating with data at the official exchange rate (see Table A2.1 and A2.2 in Annex 2). As a consequence, the net redistribution across member states would be nearly halved, and it would mean a significantly smaller extent of solidarity among the member states than is currently the case, or than it would be in the case of the proposed reform calculated at the official exchange rate.

process; structural operation transfers, though phased in at commitment level, were far from being completed at actual payment level. In contrast, the reformed system was displayed in its full and final version, calculated for the 2006 GNI data. With all these reservations in mind, the data show that the real losers under the new regime would have been the old cohesion member states: first of all Greece, then Ireland and Portugal, and to a smaller extent Spain (see also the summary in Table 5.4). Of the new members, significant losers would have been Malta and Cyprus. Poland, Slovakia and the Czech Republic would have benefited a great deal from the new system, but this is rather a consequence of failures of absorption in these countries in 2006 than anything else. Hungary, Slovenia and the Baltic states would also have benefited, but to a smaller extent.

Nevertheless, it is important to point out here that the reformed regime, in the presented full and final version, provides much less beneficial net financial positions for the new member states than the current system, once the phasing in is completed. This will be discussed in more detail below.

Table 5.2 displays the estimated member state net financial positions seven years later, in 2013. By that year, the EU GNI is estimated to have increased by 18.4% at constant prices.[109] Calculating with the same 25 member states as in 2006 and with the 2006 size of the population, the per capita EU GNI is estimated to have increased to EUR 290.5. As a consequence of the catching up, differences across member states have become somewhat smaller and thus the extent of the net redistribution has dropped from 0.14% to 0.13% of the aggregate EU GNI. The absolute value of net redistribution has increased by 9.6% only; nevertheless, this is hardly more than half of the GNI growth rate.

The changes are best summarized in the last column of Table 5.3. Here we see that compared to the GNI the net financial positions of all but two net payer member states have improved, especially if we take into consideration that in the estimation of net financial positions in 2013 under the current regime the effect of the UK rebate is not included, i.e. in real life the improvement would be somewhat larger than in this estimation because the basis would be smaller (certainly not for the UK). The net financial position of Luxemburg and Denmark would hardly change compared to the current system; nevertheless, if we take the effect of the UK rebate into consideration, even these two countries would enjoy a marginal improvement. It is only Ireland which accounts for a loss under the new regime, but Ireland will have to accept a deterioration in any case after 2013 due to its improved economic strength.

The assessment of the UK position is not easy. In the estimation, the UK would be an important winner of the changeover to the new regime, but only because the basis of comparison does not include the effect of the UK rebate. If it is assumed that roughly two

[109] For the estimated individual growth rates for member states and groups of member states, respectively see Annex 1.

thirds of the UK net position under the old regime (-0.38 percentage points from -0.57% of GNI) is returned to the UK due to the rebate, so that the new net position is -0.19%, then instead of the 0.35 percentage point improvement in the reformed system compared to the old one as shown in Table 5.3, we arrive at a marginal loss (about 0.03 percentage point of the GNI) However, the UK rebate will be relatively smaller compared to the 2007-2013 financial perspective than it was earlier, because certain elements of the calculation were changed in that direction at the 2005 December summit.[110] For this reason, we can afford the cautious assumption that the UK's relative position in the reformed system would remain unchanged in 2013 compared to that assumed to evolve under the current regime.

How do the net beneficiary member states fare in the reformed system compared to the case if the old regime prevailed? The results of this comparison are shown in Table 5.4. Compared to the estimated net financial positions in 2013 under the old regime (for details of this estimation see Chapter 1, Table 1.16) the new member states in the reformed system would suffer really considerable losses. The most important losers would be Hungary, Lithuania and Estonia (from 2.3 to 1.9 percentage points), nevertheless for different reasons: Hungary because of the high basis in the comparison due to an exceptionally lucky combination of eligibilities both under the current CAP and cohesion policy, Lithuania due to the high basis and rapid catching up, and Estonia mainly due to its exceptionally rapid economic growth. Smaller but still considerable losers (around 1.5 percentage points) are the Czech Republic, Latvia and Slovakia. Another group of net beneficiary member states would lose 1 percentage point or less: Poland, Greece, Portugal, Malta and Slovenia. Spain and Cyprus would gain from the changeover.

Table 5.5 displays the net financial positions in 2013 under the new regime in the case of an EU-27, i.e. taking into consideration the 2007 enlargement by Bulgaria and Romania. The value of 1% of per capita GNI of the EU would drop from EUR 290.5 to EUR 277. The net financial position of all 25 'old' member states deteriorates compared to a situation without enlargement. The deterioration is larger in the case of the net beneficiaries (from 0.05 to 0.14 percentage points of GNI) than in the case of net payers (from 0.02 to 0.05 percentage points of GNI), and within the group of net beneficiaries the relatively less prosperous member states would lose the most, as the transfers play a relatively larger role in their economy and the same absolute changes in per capita net balances are relatively larger than in the case of most prosperous member states.

[110] 'Starting in 2013 at the latest, the UK will fully participate in the financing of enlargement costs for countries which have acceded after 30 April 2004 except for CAP market expenditure. To this end the UK budgetary mechanism shall be adjusted by progressively reducing the total allocated expenditure.' (European Council, 2005, p. 30)

Table 5.1

The proposal for a reform of the cross member state redistribution in the EU tested for the year 2006

Member states	GNI, EUR mn	Population, mn	1% of per capita GNI, paid to the EU budget, EUR	Per capita transfers from the EU budget, EUR	Reform proposal per capita net position, EUR	Factual (2006) per capita net position, EUR	Reform proposal compared to factual, per capita, EUR	Reform proposal MS net position, EUR mn	Reform proposal MS net position in % of GNI	Factual (2006) MS net position in % of GNI	Reform proposal compared to factual, in %points	Calculated MS contribution, 1% of the MS GNI, EUR million	Calculated Transfers for MS from the EU budget, EUR million
			(1)	(2)	(3)=(2)-(1)	(4)	(5)=(3)-(4)		(6)	(7)	(8)=(6)-(7)		
Net payer member states in 2006													
Netherlands	547,889	16.34	335	245.5	-90	-158	69	-1,468	-0.27	-0.47	0.20	5,479	4,011
Sweden	307,478	9.08	338	245.5	-93	-94	1	-845	-0.27	-0.28	0.01	3,075	2,230
Germany	2,318,830	82.37	281	245.5	-36	-77	41	-2,969	-0.13	-0.27	0.14	23,188	20,220
Belgium	315,646	10.54	299	245.5	-54	-67	13	-569	-0.18	-0.23	0.05	3,156	2,587
Denmark	222,583	5.44	409	245.5	-164	-93	-71	-891	-0.40	-0.23	-0.17	2,226	1,334
France	1,799,872	63.11	285	245.5	-40	-48	8	-2,508	-0.14	-0.17	0.03	17,999	15,491
Finland	168,641	5.27	320	245.5	-75	-46	-29	-394	-0.23	-0.14	-0.09	1,686	1,293
Austria	253,852	8.28	307	245.5	-61	-36	-25	-506	-0.20	-0.12	-0.08	2,539	2,033
Italy	1,471,384	58.84	250	245.5	-5	-30	25	-270	-0.02	-0.12	0.10	14,714	14,443
Luxembourg	27,505	0.46	595	245.5	-350	-65	-285	-162	-0.59	-0.11	-0.48	275	113
UK	1,924,153	60.55	318	245.5	-72	-35	-37	-4,379	-0.23	-0.11	-0.12	19,242	14,862
Net beneficiary member states in 2006													
Greece	190,092	11.15	171	245.5	75	458	-383	835	0.44	2.68	-2.24	1,901	2,736
Lithuania	23,180	3.39	68	245.5	177	172	5	601	2.59	2.52	0.07	232	833
Malta	4,828	0.41	119	245.5	127	249	-122	51	1.06	2.09	-1.03	48	100
Latvia	15,721	2.29	69	245.5	177	112	65	404	2.57	1.63	0.94	157	561
Portugal	149,112	10.59	141	245.5	105	216	-112	1,108	0.74	1.54	-0.80	1,491	2,599
Estonia	12,570	1.34	94	245.5	152	131	20	204	1.62	1.40	0.22	126	329
Hungary	82,797	10.07	82	245.5	163	111	52	1,643	1.98	1.35	0.63	828	2,471
Poland	259,104	38.13	68	245.5	178	79	99	6,768	2.61	1.16	1.45	2,591	9,359
Slovakia	42,611	5.39	79	245.5	166	60	106	897	2.11	0.76	1.35	426	1,323
Cyprus	14,050	0.77	182	245.5	63	133	-69	49	0.35	0.73	-0.38	141	189
Ireland	51,408	4.27	355	245.5	-109	253	-362	-466	-0.31	0.71	-1.02	1,514	1,048
Slovenia	29,376	2.01	146	245.5	99	71	28	199	0.68	0.49	0.19	294	493
Spain	960,842	44.12	218	245.5	28	86	-59	1,221	0.13	0.40	-0.27	9,608	10,830
Czech Republic	107,477	10.27	105	245.5	141	38	103	1,446	1.35	0.36	0.99	1,075	2,521
Total	**11,401,003**	**464**	**245.46**					-				**114,010**	**114,010**
Net payers								**-15,427**					
Net beneficiaries								**15,427**					
Net redistribution in % of EU GNI								*0.14*					

Source: Population: Eurostat; GNI: European Commission (2007), Annex 5, and own calculations; own estimations.

Table 5.2 **The proposal for a reform of the cross member state redistribution in the EU tested for the year 2013, for the EU-25**

Member states	GNI in 2013, EUR mn at 2006 prices	Population, mn in 2006	1% of per capita GNI, paid to the EU budget, EUR	Per capita transfers from the EU budget, EUR	Reform proposal per capita net position in 2013, EUR	Reform proposal MS net position in 2013, EUR mn	Reform proposal MS net position, 2013 in % of GNI	Reform proposal MS net position, 2006 in % of GNI	Reform proposal 2013 compared to 2006, in % points
			(1)	(2)	(3)=(2)-(1)		(4)	(5)	(6)=(4)-(5)
Net payer member states									
Netherlands	632,483	16.34	387	290.5	-97	-1,578	-0.25	-0.27	0.02
Sweden	357,609	9.08	394	290.5	-103	-937	-0.26	-0.27	0.01
Germany	2,730,124	82.37	331	290.5	-41	-3,371	-0.12	-0.13	0.00
Belgium	369,259	10.54	350	290.5	-60	-630	-0.17	-0.18	0.01
Denmark	259,934	5.44	478	290.5	-188	-1,020	-0.39	-0.40	0.01
France	2,102,981	63.11	333	290.5	-43	-2,696	-0.13	-0.14	0.01
Finland	195,559	5.27	371	290.5	-81	-426	-0.22	-0.23	0.02
Austria	296,509	8.28	358	290.5	-68	-559	-0.19	-0.20	0.01
Italy	1,713,493	58.84	291	290.5	-1	-41	0.00	-0.02	0.02
Luxembourg	32,262	0.46	698	290.5	-408	-188	-0.58	-0.59	0.00
UK	2,253,185	60.55	372	290.5	-82	-4,942	-0.22	-0.23	0.01
Ireland	175,249	4.27	411	290.5	-120	-513	-0.29	-0.31	0.02
Net beneficiary member states									
Greece	221,371	11.15	199	290.5	92	1,025	0.46	0.44	0.02
Lithuania	37,097	3.39	109	290.5	181	615	1.66	2.59	-0.94
Malta	6,861	0.41	169	290.5	122	49	0.72	1.06	-0.35
Latvia	25,934	2.29	113	290.5	177	405	1.56	2.57	-1.01
Portugal	174,854	10.59	165	290.5	125	1,328	0.76	0.74	0.02
Estonia	21,012	1.34	157	290.5	134	180	0.86	1.62	-0.77
Hungary	112,116	10.07	111	290.5	179	1,803	1.61	1.98	-0.38
Poland	372,591	38.13	98	290.5	193	7,351	1.97	2.61	-0.64
Slovakia	64,317	5.39	119	290.5	171	923	1.43	2.11	-0.67
Cyprus	20,120	0.77	261	290.5	30	23	0.11	0.35	-0.23
Slovenia	42,592	2.01	212	290.5	78	157	0.37	0.68	-0.31
Spain	1,122,906	44.12	255	290.5	36	1,588	0.14	0.13	0.01
Czech Republic	152,936	10.27	149	290.5	142	1,454	0.95	1.35	-0.39
Total	**13,493,351**	**464**	**290.5**			-			
Net payers						**-16,901**			
Net beneficiaries						**16,901**			
Net redistribution in % of EU GNI						*0.13*			

Source: Population 2006: Eurostat; GNI in 2013: own estimation.

Table 5.3

Net payer member states: comparison of estimated net financial positions in 2006 and 2013, in % of GNI

Member state	Current regime 2006 (fact)	New regime 2006	Difference 2006 new/current	Current regime 2013*	New regime 2013	Difference 2013 new/current
			deviation in % points			deviation in % points
	(1)	(2)	(2)-(1)	(1)	(2)	(2)-(1)
Netherlands	-0.47	-0.27	0.20	-0.53	-0.25	0.28
Sweden	-0.28	-0.27	0.01	-0.43	-0.26	0.17
Germany	-0.27	-0.13	0.14	-0.45	-0.12	0.33
Belgium	-0.23	-0.18	0.05	-0.57	-0.17	0.40
Denmark	-0.23	-0.40	-0.17	-0.39	-0.39	0.00
France	-0.17	-0.14	0.03	-0.32	-0.13	0.19
Finland	-0.14	-0.23	-0.09	-0.32	-0.22	0.10
Austria	-0.12	-0.20	-0.08	-0.36	-0.19	0.17
Italy	-0.12	-0.02	0.10	-0.31	0.00	0.31
Luxembourg	-0.11	-0.59	-0.48	-0.64	-0.58	0.05
UK	-0.11	-0.23	-0.12	-0.57	-0.22	0.35
Ireland	0.71	-0.31	-1.02	0.07	-0.29	-0.36

* Without the UK rebate.

Source: Tables 5.1, 5.2 and 1.16.

Table 5.4

Net beneficiary member states: comparison of estimated net financial positions in 2006 and 2013, in % of GNI

Member state	Current regime 2006 (fact)	New regime 2006	Difference 2006 new/current	Current regime 2013*	New regime 2013	Difference 2013 new/current
			deviation in % points			deviation in % points
	(1)	(2)	(2)-(1)	(1)	(2)	(2)-(1)
Lithuania	2.52	2.59	0.07	3.57	1.66	-1.91
Malta	2.09	1.06	-1.03	1.43	0.72	-0.71
Latvia	1.63	2.57	0.94	3.04	1.57	-1.47
Estonia	1.4	1.62	0.22	2.76	0.86	-1.90
Hungary	1.35	1.98	0.63	3.94	1.61	-2.33
Poland	1.16	2.61	1.45	2.99	1.98	-1.01
Slovakia	0.76	2.11	1.35	2.87	1.44	-1.43
Slovenia	0.49	0.68	0.19	1.06	0.37	-0.69
Czech Rep.	0.36	1.35	0.99	2.42	0.95	-1.46
Cyprus	0.73	0.35	-0.38	-0.29	0.12	0.40
Spain	0.4	0.13	-0.27	0.00	0.14	0.14
Portugal	1.54	0.74	-0.80	1.37	0.76	-0.61
Greece	2.68	0.44	-2.24	1.34	0.47	-0.88
Ireland	0.71	-0.31	-1.02	0.07	-0.29	-0.36

* Without the UK rebate.

Source: Tables 5.1, 5.2 and 1.16.

Table 5.5

The proposal for a reform of the cross member state redistribution in the EU tested for the year 2013, for the EU-27

Member states	GNI, EUR mn at 2006 prices	Population, mn 2006	1% of per capita GNI, paid to the EU budget, EUR	Per capita transfers from the EU budget, EUR	Reform proposal per capita net position in 2013, EUR	Reform proposal MS net position in 2013, EUR mn	Reform proposal MS net position, 2013 in % of GNI	Reform 2013 EU-27 compared to Reform 2013 EU-25, % points
			(1)	(2)	(3)=(2)-(1)			
Net payer member states								
Netherlands	632,483	16.34	387	277	-110	-1,801	-0.28	-0.04
Sweden	357,609	9.08	394	277	-117	-1,061	-0.30	-0.03
Germany	2,730,124	82.37	331	277	-55	-4,493	-0.16	-0.04
Belgium	369,259	10.54	350	277	-73	-774	-0.21	-0.04
Denmark	259,934	5.44	478	277	-201	-1,094	-0.42	-0.03
France	2,102,981	63.11	333	277	-56	-3,555	-0.17	-0.04
Finland	195,559	5.27	371	277	-94	-497	-0.25	-0.04
Austria	296,509	8.28	358	277	-81	-672	-0.23	-0.04
Italy	1,713,493	58.84	291	277	-14	-842	-0.05	-0.05
Luxembourg	32,262	0.46	698	277	-422	-195	-0.60	-0.02
UK	2,253,185	60.55	372	277	-95	-5,767	-0.26	-0.04
Ireland	175,249	4.27	411	277	-134	-571	-0.33	-0.03
Net beneficiary member states								
Greece	221,371	11.15	199	277	78	873	0.39	-0.07
Lithuania	37,097	3.39	109	277	168	569	1.53	-0.12
Malta	6,861	0.41	169	277	108	44	0.64	-0.08
Latvia	25,934	2.29	113	277	164	374	1.44	-0.12
Portugal	174,854	10.59	165	277	112	1,183	0.68	-0.08
Estonia	21,012	1.34	157	277	120	162	0.77	-0.09
Hungary	112,116	10.07	111	277	166	1,666	1.49	-0.12
Poland	372,591	38.13	98	277	179	6,831	1.83	-0.14
Slovakia	64,317	5.39	119	277	158	849	1.32	-0.11
Cyprus	20,120	0.77	261	277	16	12	0.06	-0.05
Slovenia	42,592	2.01	212	277	65	130	0.30	-0.06
Spain	1,122,906	44.12	255	277	22	987	0.09	-0.05
Czech Republic	152,936	10.27	149	277	128	1,314	0.86	-0.09
Bulgaria	37,874	7.69	49	277	228	1,750	4.62	
Romania	140,171	21.59	65	277	212	4,576	3.26	
Total	**13,671,396**	**494**	**276.88**			-		
Net payers						**-21,322**		
Net beneficiaries						**21,322**		
Net redistribution in % of EU GNI						*0.16*		

Source: Population 2006: Eurostat; GNI in 2013: own estimation.

5.5 The impact of reform in the case of further enlargements

In the following, the proposed system is tested for the cases of two possible enlargements, first calculating the impact of the EU accession of six West Balkan countries (Albania, Croatia, Bosnia- Herzegovina, Macedonia, Montenegro and Serbia), then the accession of Turkey.

The steps of the calculations are shown in Tables 5.6 and 5.7, a summary of the findings in Tables 5.8 and 5.9. The results suggest that the impact of the West Balkan enlargement by six countries in 2013 would be somewhat smaller than that of Bulgaria's and Romania's accession. 1% of EU GNI would drop from EUR 277 to EUR 268. The net financial positions would deteriorate for the net payer members in the range of 0.01 to 0.03 percentage points, for the net beneficiaries (without Bulgaria and Romania) between 0.04 and 0.09 percentage points, in per cent of member state GNI. The position of Bulgaria and Romania would deteriorate by 0.19 and 0.14 percentage points, respectively, of their GNI.

The accession of Turkey would bring about a larger rearrangement of financial positions. In the EU-34 with the West Balkans and Turkey, the average GNI would be EUR 242 only, EUR 26 less than before Turkey' accession and EUR 35 less than in the EU-27. For the 27 incumbents, the negative impact of Turkey's accession on their net financial position is two to three times as great as that of the West Balkan enlargement. The net redistribution in the EU would increase from EUR 21,322 million to EUR 33,090 million, that is from 0.16% to 0.23% of EU GNI. While the change compared to the EU-27 might seem significant, it is interesting to compare this rate of net redistribution with the respective figure, 0.22% of GNI, in 1997, when the EU had only 15 members and cross member state differences in relative prosperity were much smaller than in an EU-34 with Turkey (see Tables 1.9, 5.5 and 5.7).

To sum up, there is no doubt that after the West Balkan + Turkey enlargement, each net payer member state would get into a situation similar to that of the major net payer countries' positions in 1997-2006 (on average, a net financial position equal to -0.35% of GNI). However, this would be better than it will actually be under the current regime in 2013 without the West Balkan + Turkey enlargement. The proposed system seems to be able to handle the difficult issue of further enlargements, since the impacts can be assessed *ex ante* and the burden to be shared remains bearable.

Table 5.6

The proposal for a reform of the cross member state redistribution in the EU tested for the year 2013, for the EU-33 (after Balkan enlargement)

Member states	GNI, EUR mn at 2006 prices	Population, mn 2006	1% of per capita GNI, paid to the EU budget, EUR	Per capita transfers from the EU budget, EUR	Reform proposal per capita net position in 2013, EUR	Reform proposal MS net position in 2013, EUR mn	Reform proposal MS net position, 2013 in % of GNI	Reform 2013 EU 33 compared to Reform 2013 EU-27, % points
			(1)	(2)	(3)=(2)-(1)			
Net payer member states								
Netherlands	632,483	16.34	387	268	-120	-1,954	-0.31	-0.02
Sweden	357,609	9.08	394	268	-126	-1,146	-0.32	-0.02
Germany	2,730,124	82.37	331	268	-64	-5,265	-0.19	-0.03
Belgium	369,259	10.54	350	268	-83	-873	-0.24	-0.03
Denmark	259,934	5.44	478	268	-211	-1,145	-0.44	-0.02
France	2,102,981	63.11	333	268	-66	-4,147	-0.20	-0.03
Finland	195,559	5.27	371	268	-104	-547	-0.28	-0.03
Austria	296,509	8.28	358	268	-91	-750	-0.25	-0.03
Italy	1,713,493	58.84	291	268	-24	-1,394	-0.08	-0.03
Luxembourg	32,262	0.46	698	268	-431	-199	-0.62	-0.01
UK	2,253,185	60.55	372	268	-105	-6,334	-0.28	-0.03
Ireland	175,249	4.27	411	268	-143	-611	-0.35	-0.02
Net beneficiary member states								
Greece	221,371	11.15	199	268	69	768	0.35	-0.05
Lithuania	37,097	3.39	109	268	158	537	1.45	-0.09
Malta	6,861	0.41	169	268	99	40	0.58	-0.06
Latvia	25,934	2.29	113	268	154	353	1.36	-0.08
Portugal	174,854	10.59	165	268	102	1,084	0.62	-0.06
Estonia	21,012	1.34	157	268	111	149	0.71	-0.06
Hungary	112,116	10.07	111	268	156	1,572	1.40	-0.08
Poland	372,591	38.13	98	268	170	6,474	1.74	-0.10
Slovakia	64,317	5.39	119	268	148	799	1.24	-0.08
Cyprus	20,120	0.77	261	268	7	5	0.03	-0.04
Slovenia	42,592	2.01	212	268	55	111	0.26	-0.04
Spain	1,122,906	44.12	255	268	13	574	0.05	-0.04
Czech Republic	152,936	10.27	149	268	119	1,218	0.80	-0.06
Bulgaria	37,874	7.69	49	268	218	1,678	4.43	-0.19
Romania	140,171	21.59	65	268	203	4,374	3.12	-0.14
Croatia	47,007	4.44	106	268	162	718	1.53	
Macedonia	6,998	2.04	34	268	233	476	6.80	
Albania	10,852	3.13	35	268	233	730	6.72	
Bosnia & Herzegovina	13,542	3.91	35	268	233	910	6.72	
Montenegro	2,620	0.60	44	268	224	134	5.13	
Serbia, excl. Kosovo	32,501	7.42	44	268	224	1,660	5.11	
Total	**13,784,916**	**515**	**267.51**			-		
Net payers						**-24,364**		
Net beneficiaries						**24,364**		
Net redistribution in % of EU GNI						***0.18***		

Source: Population 2006: Eurostat; GNI in 2013: own estimation.

Table 5.7

The proposal for a reform of the cross member state redistribution in the EU tested for the year 2013, for the EU-34 (after Balkan + Turkey enlargement)

Member states	GNI, EUR mn at 2006 prices	Population, mn 2006	1% of per capita GNI, paid to the EU budget, EUR	Per capita transfers from the EU budget, EUR	Reform proposal per capita net position in 2013, EUR	Reform proposal MS net position in 2013, EUR mn	Reform proposal MS net position, 2013 in % of GNI	Reform 2013 EU 34 compared to Reform 2013 EU-27, % points
			(1)	(2)	(3)=(2)-(1)			
Net payer member states								
Netherlands	632,483	16.34	387	242	-145	-2,365	-0.37	-0.09
Sweden	357,609	9.08	394	242	-151	-1,375	-0.38	-0.09
Germany	2,730,124	82.37	331	242	-89	-7,340	-0.27	-0.10
Belgium	369,259	10.54	350	242	-108	-1,138	-0.31	-0.10
Denmark	259,934	5.44	478	242	-236	-1,282	-0.49	-0.07
France	2,102,981	63.11	333	242	-91	-5,736	-0.27	-0.10
Finland	195,559	5.27	371	242	-129	-679	-0.35	-0.09
Austria	296,509	8.28	358	242	-116	-958	-0.32	-0.10
Italy	1,713,493	58.84	291	242	-49	-2,876	-0.17	-0.12
Luxembourg	32,262	0.46	698	242	-456	-211	-0.65	-0.05
UK	2,253,185	60.55	372	242	-130	-7,859	-0.35	-0.09
Ireland	175,249	4.27	411	242	-168	-718	-0.41	-0.08
Net beneficiary member states								
Greece	221,371	11.15	199	242	44	488	0.22	-0.17
Lithuania	37,097	3.39	109	242	133	452	1.22	-0.32
Malta	6,861	0.41	169	242	73		0.43	-0.20
Latvia	25,934	2.29	113	242	129	295	1.14	-0.30
Portugal	174,854	10.59	165	242	77	818	0.47	-0.21
Estonia	21,012	1.34	157	242	86	115	0.55	-0.22
Hungary	112,116	10.07	111	242	131	1,318	1.18	-0.31
Poland	372,591	38.13	98	242	145	5,514	1.48	-0.35
Slovakia	64,317	5.39	119	242	123	663	1.03	-0.29
Cyprus	20,120	0.77	261	242	-19	-14	-0.07	-0.13
Slovenia	42,592	2.01	212	242	30	60	0.14	-0.16
Spain	1,122,906	44.12	255	242	-12	-537	-0.05	-0.14
Czech Republic	152,936	10.27	149	242	93	959	0.63	-0.23
Bulgaria	37,874	7.69	49	242	193	1,485	3.92	-0.70
Romania	140,171	21.59	65	242	177	3,830	2.73	-0.53
Croatia	47,007	4.44	106	242	137	606	1.29	
Macedonia	6,998	2.04	34	242	208	424	6.06	
Albania	10,852	3.13	35	242	208	651	6.00	
Bosnia & Herzegovina	13,542	3.91	35	242	208	812	6.00	
Montenegro	2,620	0.60	44	242	199	119	4.55	
Serbia, excl. Kosovo	32,501	7.42	44	242	199	1,473	4.53	
Turkey	470,501	72.97	64	242	178	12,978	2.76	
Total	**14,255,417**	**588.28**	**242.33**			-		
Net payers						**-33,090**		
Net beneficiaries						**33,090**		
Net redistribution in % of EU GNI						***0.23***		

Source: Population 2006: Eurostat; GNI in 2013: own estimation.

Table 5.8

Net payer member states: comparison of estimated net financial positions before and after forthcoming enlargements, in % of GNI

Member state	New regime 2013, EU-27	New regime 2013, EU-33	New regime 2013, EU-34	EU-33 compared to EU-27 deviation in % points	EU-34 compared to EU-27 deviation in % points
Netherlands	-0.28	-0.31	-0.37	-0.02	-0.09
Sweden	-0.30	-0.32	-0.38	-0.02	-0.09
Germany	-0.16	-0.19	-0.27	-0.03	-0.10
Belgium	-0.21	-0.24	-0.31	-0.03	-0.10
Denmark	-0.42	-0.44	-0.49	-0.02	-0.07
France	-0.17	-0.20	-0.27	-0.03	-0.10
Finland	-0.25	-0.28	-0.35	-0.03	-0.09
Austria	-0.23	-0.25	-0.32	-0.03	-0.10
Italy	-0.05	-0.08	-0.17	-0.03	-0.12
Luxembourg	-0.60	-0.62	-0.65	-0.01	-0.05
UK	-0.26	-0.28	-0.35	-0.03	-0.09
Ireland	-0.33	-0.35	-0.41	-0.02	-0.08

Source: Tables 5.5, 5.6 and 5.7.

Table 5.9

Net beneficiary member states: comparison of estimated net financial positions before and after forthcoming enlargements, in % of GNI

Member state	New regime 2013, EU-27	New regime 2013, EU-33	New regime 2013, EU-34	EU-33 compared to EU-27 deviation in % points	EU-34 compared to EU-27 deviation in % points
Spain	0.09	0.05	-0.05	-0.04	-0.14
Portugal	0.68	0.62	0.47	-0.06	-0.21
Greece	0.39	0.35	0.22	-0.05	-0.17
Lithuania	1.53	1.45	1.22	-0.09	-0.32
Malta	0.64	0.58	0.43	-0.06	-0.20
Latvia	1.44	1.36	1.14	-0.08	-0.30
Estonia	0.77	0.71	0.55	-0.06	-0.22
Hungary	1.49	1.40	1.18	-0.08	-0.31
Poland	1.83	1.74	1.48	-0.10	-0.35
Slovakia	1.32	1.24	1.03	-0.08	-0.29
Slovenia	0.30	0.26	0.14	-0.04	-0.16
Czech Rep.	0.86	0.80	0.63	-0.06	-0.23
Cyprus	0.06	0.03	-0.07	-0.04	-0.13
Bulgaria	4.62	4.43	3.92	-0.19	-0.70
Romania	3.26	3.12	2.73	-0.14	-0.53

Source: Tables 5.5, 5.6 and 5.7.

5.6 Advantages and disadvantages of the proposed system

- **Advantages**

The new, reformed system would be rule-based without the exemptions, rebates and special treatments that have characterized the current system since the decisions of European Council in December 2005. The rules in the reformed system are very clear. The net financial position of any member state is independent of its size, population and, more importantly, also its negotiating leverage; it is determined exclusively by its relative prosperity within the EU.

The rules of cross member state redistribution are very simple and transparent. With the EU average per capita GNI as a cornerstone of the new system and the common denominator for transfers from the EU budget for each member state, the functioning of cross member state redistribution becomes easily understandable for any adult citizen with completed elementary schooling. This has to be compared to the current complicated and opaque system.

Member state contributions to the EU budget and consequently the emerging net financial positions are fully proportional to the economic strength of the member states. This is one possible solution for securing the equal sharing of burdens in cross member state redistribution, leaving no room for the dreaded 'juste retour' approach in the discussion on budgetary issues.

The net financial position of any member state changes in small foreseeable steps over the years, enabling the governments to plan the utilization of external resources from the EU budget for a longer time horizon than currently. In the prevailing system, uncertainties increase at the end of each seven-year financial perspective, as no one can be sure what rules with what special arrangements will appear at the end of the bargaining.

As more flexible than currently allocation of resources from the EU budget across various eligible targets will become possible for the governments concerned, programmes better tailored to individual member state needs may be the outcome. The accommodation of available financing with diverging preferences is an important asset of the proposed system compared to the prevailing one. Increased flexibility ought to result in a higher grade of absorption and improved efficiency of project implementation.

With the simple and, for the long run, fixed rules of cross member state redistribution, short, medium and long-term EU budgetary consequences of future enlargements can be assessed.

- **Disadvantages**

As Tables 5.3 and 5.4 demonstrate, departure from the current system negatively affects a couple of member states. This problem must be addressed in detail.

Some of the *net payer* member states would have fared worse under the new regime than in the current system, had it already been introduced in 2006. But the really important message for the net payers is that by 2013, when nearly the full impact of the 2004/2007 enlargement has already been 'phased in', it is assumed that their net financial position would be better (or in the worst case the same) under the reformed system than it will be in the current one. Further enlargements, even with Turkey, would not create a situation for this group of member states which, on average, would be worse than it was in 1997-2006 (average net financial position equal to -0.35% of GNI).

On the side of the *net beneficiary* member states, a comparison of real life net financial positions in 2006 and the estimated ones for the same year calculated with the proposed new rules is not appropriate, as the 2006 positions are determined by the stage of the phasing-in process and initial absorption difficulties of the new member states. Thus it is expedient to move immediately to the year 2013. A comparison with the rudimentary estimation for the net financial positions in 2013 under the prevailing and the proposed new rules, however, indicates serious deterioration for the net beneficiary member states. Does it necessarily mean that these member states will oppose the reform?

The prevailing rules will not change up to 2013. It is extremely important to point out that all the exercises for assessing the net financial positions in the year 2013 clearly bear a message for the period *after* 2013. What the situation will be after 2013 is still completely uncertain. We have several open questions: will direct payments still be available; what will happen to the UK rebate; which poor new member states will join with justified expectations of tapping EU resources; and finally, the most important question: to what extent will the highly developed member states be prepared to participate further on as donors in cross member state redistribution? Current beneficiaries may not extrapolate the extent of transfers from the EU budget in the 2007-2013 period for the years beyond 2013. The emerging tensions, the desperate efforts to avoid a breakdown of cross member state redistribution, and the chaotic compromise finally achieved in 2004-2005 do not allow too much optimism for the net beneficiary countries concerning the forthcoming negotiations in 2010-2011, if the current philosophy and practice of cross member state redistribution remain the same. Clear rules for the post-2013 years, smaller, but safely secured and foreseeable transfers from the EU budget in the long term, further significantly increased flexibility in utilization of the EU resources may win the net beneficiary member states for the reforms proposed. Last but not least, it is as good as impossible to argue against the proposed system on the basis of a fair sharing of burdens and gains.

The main problem of budgetary redistribution has always been the uneven sharing of burdens *among net payer member states*. With the help of the reform, this problem would be solved, and what is very important, the changeover to the new regime would place *each* net payer country in a better position than it is under the current system. The key question for the net beneficiary member states is whether they can expect more advantages from a *post-2013 edition* of the current system or from possible *other* reforms.

In the event that the proposed reform were approved, a phasing-out solution to avoid the 'cold turkey' effect would be expedient for those net beneficiary member states for which the decrease of EU resources at the interface of the outgoing current system and the incoming new system would exceed a certain degree. An additional tool to help transition to the new system could be permission to carry over resources from the last two to three years of the current financial period to the first two to three years of the post-2013 period.

The next group of problems is related to the exchange rates. GNI of individual member states in euro terms, calculated at the official exchange rate of the member states involved, is a central issue in calculating the sum of per capita, and thus member state level, transfers in each year. The same amount of GNI with undervalued currency means a bigger difference between member state and aggregate EU per capita GNI, and that is translated to a higher amount of transfers. The same member state with an exchange rate in which the national currency is stronger vis-à-vis the euro will have a higher per capita GNI in euro terms and a smaller difference compared to the EU average per capita GNI. This exchange rate policy will result in smaller transfers from the EU budget. This remains a serious concern.

Major fluctuations from one year to the other in the national currency/euro exchange rate influence the extent of transfers. For the sake of stability and easier planning, it is worth contemplating solutions that would smooth out the effects of volatility.

The proposed reform constitutes a radical departure from the current practice of expenditure allocations across member states. Currently, the sum of expenditures allocated to a member state is the result of various EU policies independent of each other. In the proposed system, member states dispose of a pre-fixed sum that is earmarked for them to finance EU policies in that member state. The changeover to the new system necessarily opens discussions on the reasonability of the policies concerned. This, in an optimistic scenario, will lead to EU policies being reconsidered and adapted to the challenges to be faced in the next decades. Nevertheless, existing doubts about the sense

and usefulness of redistribution at EU level[111] may come to the foreground, so that the reform, in a worst-case scenario, eventually would eliminate and not modernize the system of cross member state redistribution in the EU.

The last disadvantage of the reformed system is related to the EU citizens' support of further enlargements. The simplicity and transparency of the new system would make the budgetary consequences of future enlargement by poor and large countries obvious for any interested citizen of the EU (see Tables 5.8 and 5.9). Already existing resistance towards Turkey's accession would be reconfirmed if citizens of incumbent member states faced increased burdens and decreased benefits as a consequence of Turkey's accession. (Certainly the possible accession of Norway, Iceland and Switzerland after 2013 would have the opposite affect).

6 Conclusions

As discussed in Chapters 2 and 3, neither the size of member state contributions nor that of the expenditures allocated to individual member states reflect the relative economic strength of the member states. This is especially true for highly developed member states. Under the current regulations, a group of these member states has been contributing to the EU budget to a distinctly larger extent than the rest of the highly developed member states. Special, non-rule-based regulations (UK rebate, rebate on the financing of the UK rebate, number of exemptions agreed upon at the December 2005 summit) have been necessary to avoid the collapse of cross member states redistribution in the EU. Involved member states have followed various strategies to level out the playing ground. The letter of the four major net payer member states in December 2003 made an attempt to ease the tension by suggesting a smaller overall budget. Then an attempt was made to eliminate the UK rebate. The UK, in turn, made the discussion of its rebate dependent on the elimination of the direct payments, a pet project of France. The stalemate was lifted with a series of non-rule-based solutions at the December 2005 summit, all trying to satisfy individual member state claims for a juste retour. Although the next round of negotiations on the post-2013 financial framework is still far away, under the current system there is no way to avoid extreme net financial positions without exemptions, and the whole bargaining process cannot be based on another principle than that of fighting for a juste retour.

[111] 'Summing up, it is obvious that the EU budget is not designed along the normative ideas of the economic theory of federalism. Tasks that may be seen as supranational responsibilities, like defence and internal security, are still with the member states, while agriculture which plays an important role in the EU budget does not exhibit particular scale economies or transnational spillovers to warrant supranational provision. In general, the size and particularly of the structure of the EU budget can be explained as providing compensation payments to the member states to obtain their consent to European integration.' (Feld, 2003, p. 37) For an overview of critical literature relying on the economic theory of federalism see Feld (2003).

The chief attraction of the proposed new system is that it faces the juste retour problem frontally instead of negating or circumventing it. After the introduction of the reform, simply no room remains for the juste retour attitude. Contributions to the EU budget reflect the relative economic strengths of the member states. Expenditures (per capita) are the same for each EU citizen; at member state level they are only the function of the size of the member state population. The net financial positions reflect the levels of development of the individual member states relative to the EU average. The system is very simple, transparent, and an exact reproduction of differences in economic strength of the member states. None of the member states can raise claims for less contribution or more expenditures with arguments based on juste retour, and there is no need for exemptions or any other non-rule-based regulation. The maximum possible flexibility in allocation of EU co-financed expenditures in member states can neutralize 'juste retour motivated' discussions on the current and future importance of individual EU policies, as there will be no linkage between the net financial positions of member states and their more or less intense involvement in certain EU policies. Notwithstanding, it may become necessary to accept transitory regulations for member states for which expenditures from the EU budget would drop beyond a certain extent compared to those received in the last years of the outgoing system. These transitory regulations, however, would have nothing to do with the juste retour attitude.

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Annex 1

Table A1.1

The annual GNI growth rates used at the estimations

in %

	2007	2008	2009-2013
EU-15	2.2	2.2	2.2
Hungary	2.1	3.1	5.0
Poland	6.5	5.5	5.0
Czech Republic	5.8	5.0	5.0
Slovak Republic	9.0	8.5	5.0
Slovenia	5.5	5.0	5.0
Bulgaria	6.2	6.0	6.0
Romania	5.5	5.5	6.0
Estonia	9.5	8.4	7.0
Latvia	8.9	8.0	7.0
Lithuania	7.0	6.5	7.0
Croatia	6.0	5.0	5.0
Macedonia	4.5	5.0	5.0
Turkey	5.0	5.5	6.0
Albania	5.1	5.5	6.0
Bosnia and Herzegovina	5.0	4.9	6.0
Montenegro	6.0	6.0	5.0
Serbia	6.0	5.0	5.0

Source: EU-15: own estimation; all other countries 2007-2008: wiiw estimation, 2009-2013: own estimation.

Annex 2

Table A2.1

The proposal for a reform of the cross member state redistribution in the EU tested for the year 2006, EU-25, GNI data at purchasing power parity

Member states	GNI, EUR mn	Population, million, 2006	1% of per capita GNI, paid to the EU budget, EUR	Per capita transfers from the EU budget, EUR	Reform proposal per capita net position, EUR	Factual (2006) per capita net position, EUR	Reform proposal compared to factual, per capita, EUR	Reform proposal MS net position, EUR mn	Reform proposal MS net position in % of GNI	Factual (2006) MS net position in % of GNI	Reform proposal compared to factual, in %points	Calculated MS contribution, 1% of the MS GNI, EUR million	Calculated Transfers for MS from the EU budget, EUR million
Net payer member states in 2006													
Netherlands	515,180	16.34	315	243.0	-72	-158	86	-1,181	-0.23	-0.47	0.24	5,152	3,970
Sweden	257,242	9.08	283	243.0	-40	-94	54	-365	-0.14	-0.28	0.14	2,572	2,207
Germany	2,217,981	82.37	269	243.0	-26	-77	51	-2,164	-0.10	-0.27	0.17	22,180	20,016
Belgium	305,460	10.54	290	243.0	-47	-67	21	-493	-0.16	-0.23	0.07	3,055	2,561
Denmark	163,847	5.44	301	243.0	-58	-93	35	-317	-0.19	-0.23	0.04	1,638	1,321
France	1,686,093	63.11	267	243.0	-24	-48	24	-1,526	-0.09	-0.17	0.08	16,861	15,335
Finland	144,563	5.27	275	243.0	-32	-46	14	-166	-0.11	-0.14	0.03	1,446	1,280
Austria	247,061	8.28	298	243.0	-55	-36	-19	-458	-0.19	-0.12	-0.07	2,471	2,012
Italy	1,428,362	58.84	243	243.0	0	-30	30	14	0.00	-0.12	0.12	14,284	14,298
Luxembourg	25,296	0.46	548	243.0	-305	-65	-239	-141	-0.56	-0.11	-0.45	253	112
UK	1,713,871	60.55	283	243.0	-40	-35	-5	-2,426	-0.14	-0.11	-0.03	17,139	14,713
Net beneficiary member states in 2006													
Greece	224,609	11.15	201	243.0	41	458	-416	462	0.21	2.68	-2.47	2,246	2,709
Lithuania	44,977	3.39	132	243.0	110	172	-62	375	0.83	2.52	-1.69	450	825
Malta	6,973	0.41	172	243.0	71	249	-177	29	0.41	2.09	-1.68	70	99
Latvia	29,121	2.29	127	243.0	116	112	4	265	0.91	1.63	-0.72	291	556
Portugal	179,039	10.59	169	243.0	74	216	-142	783	0.44	1.54	-1.10	1,790	2,573
Estonia	20,438	1.34	152	243.0	91	131	-41	122	0.60	1.40	-0.80	204	326
Hungary	143,312	10.07	142	243.0	101	111	-10	1,013	0.71	1.35	-0.64	1,433	2,446
Poland	453,353	38.13	119	243.0	124	79	45	4,731	1.04	1.16	-0.12	4,534	9,265
Slovakia	76,930	5.39	143	243.0	100	60	40	540	0.70	0.76	-0.06	769	1,310
Cyprus	16,590	0.77	215	243.0	28	133	-105	21	0.13	0.73	-0.60	166	187
Ireland	122,820	4.27	288	243.0	-45	253	-298	-191	-0.16	0.71	0.87	1,228	1,037
Slovenia	41,394	2.01	206	243.0	37	71	-34	74	0.18	0.49	-0.31	414	488
Spain	1,040,708	44.12	236	243.0	7	86	-79	314	0.03	0.40	-0.37	10,407	10,721
Czech Republic	180,848	10.27	176	243.0	67	38	29	687	0.38	0.36	0.02	1,808	2,495
Total	**11,286,068**	**464**	**242.98**					-				112,861	112,861
Net payers								***-9,416***					
Net beneficiaries								***9,416***					
Net redistribution in % of EU GNI								***0.08***					

Source: Eurostat.

Table A2.2

The proposal for a reform of the cross member state redistribution in the EU tested for the year 2006, EU-34, GNI data at purchasing power parity

Member states	GNI, EUR mn	Population, million, 2006	1% of per capita GNI, paid to the EU budget, EUR	Per capita transfers from the EU budget, EUR	Reform proposal per capita net position, EUR	Factual (2006) per capita net position, EUR	Reform proposal compared to factual, per capita, EUR	Reform proposal MS net position, EUR mn	Reform proposal MS net position in % of GNI	Factual (2006) MS net position in % of GNI	Reform proposal compared to factual, in %points	Calculated MS contribution, 1% of the MS GNI, EUR million	Calculated Transfers for MS from the EU budget, EUR million
Net payer member states in 2006													
Netherlands	515,180	16.34	315	207	-108	-158	51	-1,763	-0.34	-0.47	0.13	5,152	3,389
Sweden	257,242	9.08	283	207	-76	-94	19	-688	-0.27	-0.28	0.01	2,572	1,884
Germany	2,217,981	82.37	269	207	-62	-77	15	-5,094	-0.23	-0.27	0.04	22,180	17,086
Belgium	305,460	10.54	290	207	-82	-67	-15	-868	-0.28	-0.23	-0.05	3,055	2,186
Denmark	163,847	5.44	301	207	-94	-93	-1	-511	-0.31	-0.23	-0.08	1,638	1,128
France	1,686,093	63.11	267	207	-60	-48	-12	-3,771	-0.22	-0.17	-0.05	16,861	13,090
Finland	144,563	5.27	275	207	-67	-46	-21	-353	-0.24	-0.14	-0.10	1,446	1,092
Austria	247,061	8.28	298	207	-91	-36	-54	-753	-0.30	-0.12	-0.18	2,471	1,718
Italy	1,428,362	58.84	243	207	-35	-30	-6	-2,079	-0.15	-0.12	-0.03	14,284	12,205
Luxembourg	25,296	0.46	548	207	-340	-65	-275	-157	-0.62	-0.11	-0.51	253	96
UK	1,713,871	60.55	283	207	-76	-35	-40	-4,580	-0.27	-0.11	-0.16	-17,139	-12,559
Net beneficiary member states in 2006													-
Greece	224,609	11.15	201	207	6	458	-452	66	0.03	2.68	-2.65	2,246	2,312
Lithuania	44,977	3.39	132	207	75	172	-97	254	0.57	2.52	-1.95	450	704
Malta	6,973	0.41	172	207	36	249	-213	14	0.21	2.09	-1.88	70	84
Latvia	29,121	2.29	127	207	80	112	-32	183	0.63	1.63	-1.00	291	474
Portugal	179,039	10.59	169	207	38	216	-178	406	0.23	1.54	-1.31	1,790	2,196
Estonia	20,438	1.34	152	207	55	131	-76	74	0.36	1.40	-1.04	204	278
Hungary	143,312	10.07	142	207	65	111	-46	655	0.46	1.35	-0.89	1,433	2,088
Poland	453,353	38.13	119	207	89	79	10	3,375	0.74	1.16	-0.42	4,534	7,909
Slovakia	76,930	5.39	143	207	65	60	5	349	0.45	0.76	-0.31	769	1,118
Cyprus	16,590	0.77	215	207	-8	133	-140	-6	-0.04	0.73	-0.77	166	160
Ireland	122,820	4.27	288	207	-80	253	-333	-343	-0.28	0.71	-0.99	1,228	885
Slovenia	41,394	2.01	206	207	1	71	-70	2	0.01	0.49	-0.48	414	416
Spain	1,040,708	44.12	236	207	-28	86	-115	-1,256	-0.12	0.40	-0.52	10,407	9,151
Czech Republic	180,848	10.27	176	207	31	38	-6	322	0.18	0.36	-0.18	1,808	2,130
Bulgaria	66,907	7.69	87	207	120			926	1.38			669	1,596
Romania	184,747	21.59	86	207	122			2,631	1.42			1,847	4,478
Croatia	50,548	4.44	114	207	94			416	0.82			505	921
Macedonia, former Yugoslav Rep.	13,245	2.04	65	207	142			291	2.19			132	423
Turkey	505,090	72.97	69	207	138			10,084	2.00			5,051	15,135
Albania	15,080	3.13	48	207	159			499	3.31			151	650
Bosnia & Herzegovina	22,343	3.91	57	207	150			587	2.63			223	811
Montenegro	3,940	0.60	66	207	142			85	2.16			39	125
Serbia, excl. Kosovo	53,818	7.42	73	207	135			1,001	1.86			538	1,539
Total	12,201,787	588	207.41									122,018	122,018
Net payers								***-22,221***					
Net beneficiaries								***22,221***					
Net redistribution in % of EU GNI								***-0.18***					

Source: Croatia, Macedonia, Turkey: Amecoj; Albania: World Bank; Bosnia & Herzegovina, Montenegro, Serbia: wiiw; all other countries: Eurostat.

Annex 3

Table A3.1

Hypothetical share of compulsory expenditures in total expenditures allocated to member states in the reformed system in 2013

(at 2006 prices)

Member state	Total expenditures allocated to MS, EUR million	Direct payments EUR million	Share of direct payments, in %
	A	B	A/B*100
Net payer member states			
Netherlands	4,747	742	15.6
Sweden	2,639	663	25.1
Germany	23,930	5,021	21.0
Belgium	3,062	532	17.4
Denmark	1,579	896	56.7
France	18,334	7,272	39.7
Finland	1,530	492	32.2
Austria	2,406	648	26.9
Italy	17,094	3,364	19.7
Luxembourg	134	32	24.0
UK	17,590	3,457	19.7
Ireland	1,240	1,166	94.1
Net beneficiary member states			
Greece	3,238	1,730	53.4
Lithuania	986	328	33.2
Malta	118	3	2.9
Latvia	665	127	19.1
Portugal	3,076	498	16.2
Estonia	390	88	22.5
Hungary	2,925	1,138	38.9
Poland	11,077	2,618	23.6
Slovakia	1,566	335	21.4
Cyprus	224	38	17.1
Slovenia	583	125	21.5
Spain	12,817	4,063	31.7
Czech Republic	2,983	784	26.3

Note: Direct payments in 2013 at current prices were deflated (calculating with 2% annual inflation) to arrive at data at 2006 prices.

Source: AgroFood East Europe No. 292, January 2007, and own calculations; Table 5.2 and own calculations.

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