REFLECTION ON THE FINANCIAL ISSUES IN THE ENLARGING EUROPEAN UNION*

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ABSTRACT. *Although access to EU financial resources is by far not the only objective of the new member countries, it is considered to be an important instrument to accelerate growth and economic modernization and support the catching up process to current EU levels. The article deals with the current structure, constraints and contradictions of the EU budget from 2000 to 2006, both from the background of global developments, intra-EU interests and the requirements of successful accession. Special attention is paid to the preparation of the new member countries to efficiently and quickly absorb available EU resources (both in agriculture and in the framework of structural and cohesion funds). It is pointed out that, although net resource flow will substantially fall short of that to the more developed but still net beneficiary present member countries, it could generate budgetary constraints in the new member countries, particularly in the first and decisive years of membership. The last chapter addresses some key issues, concerns and uncertainties of the volume and structure of the budget for the next period covering the years from 2007 to 2013. In addition, it outlines a proposal for creating a new objective within the coming budget to co-finance the cross-country and harmonized development of infrastructure of the new and still candidate member countries. In case of a high level of regional cooperation between East, Central and Southeastern European countries, this seems to be the most powerful argument to fundamentally change the pattern of distribution of the EU budget in favour of the less developed but rapidly developing new member countries.*

1. Introduction

It is evident, that the coming enlargement waves of the European Union in May 2004, most probably in 2007 and later at the beginning of the next decade, will not be free from conflicts of distribution or redistribution of financial resources. Certainly, the EU is much more than a „financial agency". In its enlarged form, it is the world's largest trading group, a monetary union for twelve countries at the moment, a hopefully more influential political actor on the global scale and, last but not least, a community of values. All these elements do play a key role in the efforts of the Central, Eastern and Southeastern European (CESE) countries to join the „club". All of them are expected to create the necessary conditions of sustainable security and economic modernization. Still, they are often forgotten or pushed into the background once the budget of the EU has to be negotiated on. As if the above-mentioned factors were not much more decisive both in the context of additional development resources and of enhanced stability, even if the latter is difficult to be expressed in quantitative terms (in contrast, its lack becomes immediately visible in financial losses).

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Why is then so much attention devoted to the national contribution to and the community-level redistribution of the EUbudget? First, because this flow of money can be exactly measured, both on the side of net contributors and of net beneficiaries. Although membership in the EU has proved to be a clear net win-win game for all countries involved, narrow-minded approaches always tend to point to the net budgetary position of the individual countries. This, in turn, can largely influence the public opinion, particularly in periods of constrained or no economic growth, budgetary problems (as in Germany, France or Italy nowadays), or during negotiations on accession (as in the CESE countries). Second, the EU had been developing a wide set of financial transfers in the last decades based both on economic and political considerations of increasing growth in lagging behind regions of the integration and due to the principle of solidarity, a key European value. Third, the success story of some less developed member countries in the last 15 years cannot be decoupled from substantial financial support from the EU budget, even if it is well known that the efficient absorption and utilization of these resources needs much more than the availability of a certain volume of money.

Thus, it is no wonder that the CESE countries, being partly much „poorer“, at least in GDP per capita terms, than the less developed and net beneficiary present members, have put fundamental emphasis on the redistribution of EU resources. They did it because of their lower level of economic development and the decisive need to catch up in a relatively short time, but also by being aware of the equity- and solidarity-based approach of the EU, as practiced in the past decades. Also, national negotiating teams had to prove to the domestic public in general, and to the political opposition in particular, that they could get out the best of the available options in the negotiation process. How important the latter was, despite much more important and long-standing impacts of membership, can be proved by the intra- and inter-country evaluation of this issue. In Hungary, for instance, the opposition accused the government that it did not negotiate correctly (as if the lion's share of negotiations had not been conducted by the present opposition). Various articles, even contributions by serious and professionally high-level experts, tried to compare the last- minute financial „achievements“ of Poland with those of the Czech Republic, Slovenia or Hungary.

It cannot be denied that the 2004 enlargement of the EU has an obvious financial constraint. Never before this problem has been as manifest as today. All decisions on enlargement were based on political motivations, since the EU is by far not just an economic or trading bloc, but a political entity as well. The problem is not with the politics-driven process of enlargement, but with the huge gap between political efforts, on the one hand, and their economic and financial costs, on the other. In the past, enlargements by less developed countries were immediately accompanied by creating new funds or by upgrading old ones, in order to support the integration and catching-up process of the new members. Currently, ten countries, most of them on a low level of GDP per capita, have been given the green light to enter the EU. However, the financial

conditions could not be created adequately, since the present budget covering the period between 2000 and 2006 has been approved in March 1999 in Berlin and provided little room for redistribution. As a result, at least until the end of 2006, the new member countries will have to get satisfied with a rather modest amount of EU resources and have to cope with a largely unequal situation, if compared to the amount of money more developed older members have been entitled with. In this context, two basic conflicts can be identified. The first relates to the remaining years of the current budgetary period (between May 2004 and December 2006), and raises the question to what extent the new member countries can experience the generally decisive first years of membership as a success story, considering the obvious financial constraints. The second covers the negotiations on the next budget expanding from 2007 to 2013. There is no doubt that there will be fierce struggle for a major redistribution of limited financial resources between old and new beneficiaries on the one hand, and between net contributors and net beneficiaries, on the other.

2. Basic facts about the EU budget

It is important to be aware of the scope of „maneuvering capacity" during the budgetary negotiations. First, according to the current rules of the game, the EU budget must not exceed 1.27 per cent of the member countries' GNP. At present, the annual budget amounts to about Euro 100 bn, or 1.07 per cent of the EU's GNP. Thus, there is some room for additional expenses of about almost 20 per cent or nearly Euro 20 bn. Moreover, with the accession of new countries the cumulated GNP of the EU will also be increasing. Finally, the budget is dependent on the growth rate in the EU, for a higher growth rate would automatically increase the volume of money available for the common budget, without challenging the ceiling of 1.27 per cent of GNP.

Second, no member country is allowed to get more than 4 per cent of its GDP, since the EU believes that this could be the upper limit of efficient absorption of community resources. In fact, one can dispute this issue, particularly in case of low-income but rapidly developing new member countries, that, in part, have been able to absorb a higher amount of GDP in form of foreign direct investments in the last years. Still, this amount seems to be sufficient for the coming seven-year budgetary period for at least three reasons. On the one hand, the 4 per cent includes resource flow from the structural, regional and cohesion funds and does not contain imbursements in the framework of the Common Agricultural Policy (CAP). On the other, the available EU resources (including CAP-related payments) amount to clearly less than 1 per cent of the acceding countries' GDP in the period between 2004 and 2006, in contrast with 1.25 to 3 per cent of GDP in the case of the current net beneficiaries of the EU. Finally, the two decade-long history of EU resources transferred to less developed member countries shows that the 4 per cent limit is satisfactory and can generate or support sizeable and sustainable economic growth.

Third, the built-in inflexibilities of the internal structure of the budget have to be mentioned. CAP-related payments account

for more than 40 per cent of the total budget. Even more importantly, this item has been fixed at the same high level for the period 2007 to 2013 as a result of a bilateral French-German agreement in October 2002. Structural and cohesion funds could reach a maximum of 40 to 45 per cent of the budgetary expenditures, since they are limited to 0.46 per cent of the EU's GNP. In addition, other community policy areas have to be financed as well, such as internal and external policies, administration and building up of reserves. Taking into account this structure, it is obvious that, disregarding enlargement(s) of the EU, the budget would need a fundamental restructuring away from agricultural support towards structural and cohesion funds, as well as to cover the rapidly increasing needs of financing new community policies (e.g. research and development, justice and home affairs, common foreign and security policy, etc.). Provided that the current internal structure of the budget will be maintained after 2007 as well, the „fight for redistribution" will be mainly carried out within the individual items and only partially among the different items of the budget. No doubt, this would seriously limit the negotiating position of the new member countries. The agricultural „box" seems to be untouchable, and the new member countries may reach an equitable treatment by 2010 only. In consequence, interest conflicts between the old and potential new beneficiaries will be concentrated on the redistribution of the structural and cohesion money. This „fight" may be further exacerbated if, and this is no illusion, the EU will need more resources for developing and supporting new areas of community policies, which have to be taken away from this item.

The other side of budgetary constraints can be identified in the structure of incomes. They consist of four elements: customs duties paid in at the common external tariff borders, levies on agricultural imports (both named as own resources), VAT-based payments and GNP-based payments of member countries. The first two issues, originally the basic pillar of the budget, have been showing a rapidly decreasing share of the income, due to extended free-trade and preferential-trade relations, WTO agreements, slow but still obvious agricultural liberalization. Thus, new elements of income have to be considered in order to ensure the financing of new tasks (mainly the support to backward regions and less developed countries). The current (and future) income sources should comply with two basic criteria: first, to satisfy the required volume of income, and, second, to create a system of equitable and just contribution to the budget by the individual member states. In this context, GNP-related payments seem to be better than VAT-based payments, since the latter roots in different VAT rates and different consumption patterns across member countries. In addition, both are growth-dependent, so that different growth rates of the member countries could result in different levels of budgetary contributions. Several ideas have been lifted to create a more equitable system of national contribution, such as environmental tax, a special and uniform EU tax, but none of them could be accepted as of today. At the same time, it is clear that sooner or later the EU budget

needs a new system of income if it wants to ensure a smooth financing of its main - old and new - targets. All the more, because, unlike national governments, the EU is not allowed to take credits from banks or financial institutions. Its annual and multi-annual budget has to be in equilibrium and no deficit, even temporary, is allowed. The regularly registered surplus will either be re-transferred to the national budgets or this money will not be paid in to the EU budget at all.

3. Enlargement and the 2000-2006 budget

The budget approved in Berlin in March 1999 with no participation of the new member countries at all, has already taken into account the fact of enlargement during the budgetary period. The main „framework conditions“ were the following:

- enlargement may happen in 2002, therefore, as a special new and sovereign item of the budget, financial means have to be secured for the period 2002 to 2006,
- the first wave of enlargement would include six countries only (Cyprus, Czech Republic, Estonia, Hungary, Poland, Slovenia),
- the new members would be excluded from the direct payment system of the CAP,
- their participation in the structural and cohesion funds would follow a phasing-in pattern (less money at the beginning and almost equal treatment with the current beneficiaries at the end of the budgetary period),
- a pre-accession fund has been set up for the whole budgetary period, with a constant annual amount of Euro 3 bn, benefiting all candidate countries, as long as they are not members (the new entrants will automatically leave this scheme and enter the special item created for the new members).

Real life, however, developed differently:

- enlargement takes place May 1st 2004, so that a large part of the money earmarked for the new member countries as of 2002 could be „saved“. Further savings result from the fact that the phasing-in process in 2004 is based on 2002 and not 2004 figures of the budget,
- altogether ten countries will join, which required a 20 per cent increase of the „enlargement budget“, which had to be „generated“ from the savings mentioned above,
- also the new member countries will be entitled to participate in the direct payment system of the CAP, by starting at a 25 per cent level of payments guaranteed for current member country farmers, and by increasing this rate by 5 percentage points each subsequent year,
- the phasing-in principle has been maintained, but the volume available at the starting point has been reduced and the distribution between structural and cohesion fund resources has been shifted towards the latter,
- the annual amount of the pre-accession fund will be reduced, since, excepting Bulgaria and Romania, all beneficiaries will become part of the structural and cohesion fund framework as of May 2004.

In consequence, the Commission could

create a budget, which could be accepted by all countries, current and new members, as well as by net contributors and net beneficiaries. In addition, this „masterpiece", the result of sometimes extremely short-sighted compromises and, at least in the context of the historical importance of enlargement(s) humiliating horse-trading, could observe the original and overall budgetary conditions, too. Still, most probably there was no other way to „successfully" finish the negotiations. The acceding countries had to make their choice between (much) less EU resources for the first three years or left out of the first wave of enlargement and waiting (at least) until 2007. Since nobody expects that the financial conditions would be substantially better in 2007, particularly because a left-out (or opted-out) country excludes itself from being part of the official negotiations on the coming financial framework of 2007 to 2013, and staying outside would certainly be interpreted as a lost historical opportunity, the Commission's proposals were accepted. As usual in diplomatic negotiations, some latest-minute small changes could still be made. On the one hand, the EU agreed to add up to 30 per cent national support to the 25 per cent initial level of direct payments to farmers, and upgraded the money available for the establishment of the new Schengen borders. On the other, some candidate countries were successful in making internal shifts within the overall sum of available resources in order to present their hard negotiating position to the domestic public (Poland, partly the Czech Republic).

The baseline scenario has, however, remained unchanged. The ten new countries will get a gross volume of EU resources of about Euro 40 bn for within the present budgetary period. In turn, they will have to contribute to the EU budget without any phasing-in pattern, which means that, from the very beginning, they will provide the full amount of their annual contribution (two-thirds of it in 2004, due to accession in May). As a result, the net EU resource transfer will decrease to Euro 25 bn for this period. According to the Commission, about Euro 10 to 15 bn will in fact be used until the end of 2006, part of which contains funds still provided or to be provided from the pre-accession fund. In consequence, the net EU financial support will hardly exceed Euro 10 bn, or Euro 300 mn per month, considering 32 months of membership until the end of 2006. This is about 0.03 per cent of the EU's GDP or 3 per cent of the annual EU budget (in fact, due to the phasing-in process, the amount will be much less in 2004 and higher than 3 per cent in 2006).

Unfortunately, much less attention was devoted to some more important changes in the conditions of availability of EU resources.

First, all new entrants will become full members of the CAP. Both media and experts were complaining about the 25 per cent initial level of direct income support for the acceding countries, despite the fact that two years ago, no support at all was viable, and that this amount, which is the only (almost) automatic resource flow from the EU budget (it does not need projects, long bureaucratic procedures, etc.), is even in its present form higher than any support the new countries' agriculture has experienced any time earlier from the national budget. Two not less important elements of membership in the CAP have been roughly ignored. On the one hand,

membership in the CAP means that the EU countries have to stop immediately subsidizing agricultural exports to the new member countries. This will definitely increase the competitiveness of domestic farmers in their own domestic market. On the other, all new member countries will fully benefit from the export subsidization scheme of the CAP towards third countries. In other words, Polish or Hungarian agricultural exports to Russia or Ukraine will be treated in equal terms with French, Dutch or Danish exports to third countries and benefit from these subsidies.

Second, with the exception of Prague and Bratislava regions (being the Hungarian decision still uncertain about Budapest), all NUT-2 level regions of the acceding countries will automatically benefit from the structural funds, since they fall into the category of „Objective 1" of regional policy (per capita GDP levels lower than 75 per cent of the EU average). Those regions having a higher income per capita, will benefit from the resources allocated to Objective 2 (depressed regions) and Objective 3 (human resource development). The basic rule is that those areas included in Objective 1 cannot participate in other „Objectives". In addition, the availability of EU funds is conditioned on two basic criteria. First, projects have to be conceived, submitted and implemented on the regional level, which needs a well-established regional structure within the given nation-state. Second, projects have to be co-financed from national sources (central budget, local authorities, private capital) with a contribution between 25 and 50 per cent of the total sum of the undertaking.

Third, access to the Cohesion Fund has to be mentioned. In this case, the resources will immediately flow to the national budget, and the co-financing need amounts to 10 to 20 per cent only. In order to increase the starting level of absorption capacity of the new members (which is not only the fundamental interest of these countries but of the EU as well, provided everybody would like to have a successfully enlarging integration), the Commission shifted the balance between structural and cohesion funds towards the latter. There were two evident reasons for it. On the one hand, the money to be made available through the Cohesion Fund can be reached through an existing (although not always sufficiently developed in EU-terms) national institutional framework. On the other, the co-financing requirement from the national budget is lower. Partly for the same reason, part of the agricultural support can be used for rural development, with a national co-financing of 20 per cent).

4. Preparation of the acceding countries for receiving EU resources

Discussion about and fighting for more EU resources in general, and a more equitable distribution of available funds in particular, are understandable endeavours of each of the new member states. Unfortunately, first of all in the final stage of negotiations, much less interest was given to two key issues which will fundamentally influence the experience with the EU and the EU resources in the first three years of membership: (a) the impact of membership on the budgetary situation in the acceding country, and (b) the domestic preparation for absorbing the available funds as quickly and as efficiently as possible.

(a) The Commission has several times stated that no new member country shall get into a financially weaker (worse) situation than it was in the last year before membership, in which, on paper at least, EU-related financial flows were a one-way street. Namely, the candidate countries benefited from the pre-accession money divided into PHARE, SAPARD and ISPA and were supposed to learn the rules of the game of the EU well before they would become members. On the other hand, however, national budgets had to finance heavily both the legal accommodation process to comply with EU rules partly before ending the negotiations, partly at the moment of accession in May 2004, and the building of institutions required to have access to potential EU funds following accession. These EU-related expenditures have amounted to Euro 1.5 to 2 bn annually in Hungary, or almost ten times the pre-accession resources coming from the EU. One can, of course, argue, that large part of such steps would have been necessary even without the perspective of membership, most probably, however, at a different speed and with different sequencing of priorities. The above sum is only important to indicate that preparation for accession or enlargement is not a one-sided effort of the EU, but a real challenge for the candidates as well. The lion's share of the financial „burden" is, as evident in the case of all countries wishing to join a club, to be taken by the candidate.

Still, the first years of membership represent a real challenge to (most of) the budget of the acceding countries.

First, the net flow of financial resources from the EU budget will follow a phasing-in schedule, meaning that the balance between contribution to the EU budget and flows from it will be „improving" from one year to the next. The net financial situation of the first year will be hardly better than that of 2003, and most resources to be taken will keep on originating from the pre-accession funds that finance previously started projects. In the case of Hungary, the net position is expected to be about Euro 200 mn in 2004, Euro 500 mn in 2005 and Euro 800 mn in 2006.

Second, delays in preparing for the EU, both in legal and institutional terms, will continue requiring additional money from the national budget. Moreover, new tasks arising from membership, will also ask for additional financing after May 2004.

Third, co-financing, although at easier conditions as originally expected or used to be provided in the pre-accession framework, will need substantial national resources and press almost all countries for a major and rapid restructuring of the budget, at least on the expenditure side, with immediate social consequences. (If necessary, also the income side has to be tackled upon, mainly meaning higher taxes and increasing other income items.) Another big slice is the co-financing of the payment scheme to farmers, which can go as much as 30 per cent of the EU standard. No question that, whatever the budgetary situation of a given country, the parliamentary opposition (and, maybe, also extra-parliamentarian lobbies) will press the acting government to provide the maximum amount of money in order to improve its position in a social and economic sector relevant for the coming elections. (See, in this context, the decades-long French experience.)

Fourth, transitory but disturbing liquidity gaps are likely to appear. They stem from

two main sources. On the one hand, direct payment to the farmers has to be anticipated from the national budget in 2004, while EU transfers will occur in 2005 only, once the necessary data on the area cultivated and the output reached will be available. Second, the financing of projects supported by the structural and cohesion funds will need additional temporary resources from the national budget, due to the general rules of EU-financing. At the initial stage, part of the EU money will be available, but in the next phase(s), national contribution has to be made use of. Part of the EU contribution will only be paid after finishing the project, so that in-between accounts have to be paid by the national budget. In several stages of the project's „life cycle", the national contribution would largely exceed the share of national co-financing, while the „balance" will only be restored some time after concluding the project and approving all accounts. Companies participating in such projects can hardly have a financial background that would allow them to wait for payments for months or even years.

Fifth, joining the EU is, in an obligatory form, accompanied by preparing for membership in the Economic and Monetary Union (EMU). Unlike Great Britain, Denmark (and partly Sweden), no new member country was acknowledged the right of opting-out. Thus, sooner or later, they will have to become part of the EMU and, from the beginning of EU membership, share the main economic policy goals of the EU, including a resolute policy approach towards meeting the Maastricht criteria.

Such a situation, even disregarding the current budgetary imbalances in the leading acceding countries (Czech Republic, Hungary, Poland, Slovakia), could easily lead to a „crunch" with unknown political and economic consequences. To avoid such a situation, the EU and each of the new member countries have to develop utmost responsibility. A disciplined budgetary policy and a flexible EU behaviour should form the two sides of this approach.

(b) The fact that money from EU sources will be modest in the first years of accession, must not be used as an excuse to lower-than-expected growth or not-fulfilling expectations of membership. Just the opposite, the quick and efficient use of each euro has to become the cornerstone of development policies. In order to reach this goal, three conditions have to be fulfilled:

- high-level preparation of projects to be financed, ready for application on the first day after accession,
- functioning institutions to qualify for and absorb EU funds,
- availability of co-financing resources from the very beginning.

The fulfillment of the first criteria is rooted in the new member country's microeconomic development. Of course, it cannot be revealed if the institutional framework is missing or is inadequate to EU rules. A good case in point was the delayed setting up of the SAPARD agency in Hungary. Once, however, it started to function (in the autumn of 2002), the rate of successful applications for EU funds was about 40 per cent as compared to the 11 per cent average of other candidate countries which could establish this agency much earlier. Therefore, the real absorption capacity of the individual countries is very difficult to be forecast. It is, however clear that all three conditions have to be fulfilled and support each other mutually.

Provided that all or most available EU resources can be efficiently used, development gaps among differently developed regions within a new member country are likely to widen, at least temporarily. This can be attributed to the differences in the starting level of absorption capacity. More developed, better endowed regions (both in human capital, physical infrastructure, institutions, social environment, etc.) used to be more successful in absorbing additional resources than less developed ones. It is a key task of the government's regional policy to support both the spillover impacts originating in the developed region and the absorption capacity of the less developed area in order to create a sustainable process based on genuine and autonomous development. In this respect, the EU itself has an ambiguous trajectory. While most less developed countries could catch up after membership (excepting Greece until recently), regional differences within the catching-up countries remained almost unchanged. It does not mean that backward regions were not able to develop, but they were not able to have a better development record than the most prosperous regions of the given country. (Without any support, most probably, the gap would have been much wider, with serious social and domestic political implications.)

5. What does the next budget promise?

Negotiations on the EU budget covering the period between 2007 and 2013 are expected to be even harsher than previous ones. This is partly due to the fact that, instead of two, there will be three (or just four) main players. First, the net contributors who are not ready to pay more into the community budget. Just the opposite, they would like to reduce their payments. Second, the old net beneficiaries who are unlikely to give up their previous and generous position. Third, the new members who would like to get a justified and equal-footing treatment, since they are (much) poorer than the present beneficiaries of the resources. And, finally, one has to take into account the financial needs of additional entrants by 2007, on an even lower GDP per capita level (Bulgaria and Romania, perhaps Croatia, too). Partly, the „fighting“ for redistribution will be brutal because of the already mentioned inflexibilities of the EU budget concerning the ceiling of 1.27 per cent of GNP of the member countries and the built-in structural problems hindering adequate and future-oriented redistribution (CAP as the, literally, holy cow of the EU).

The starting situation can be made even more difficult if the Spanish veto about the future form of the structural funds of the EU were accepted (at least until 2013 or even for the period after 2013). Similarly, preliminary negotiations on the main pillars of the budget from 2007 to 2013 that have already started behind closed doors and without the new members, could create an atmosphere characterized by lack of confidence, mutual fears and general uncertainty. It is clear that the new budget has to be approved by the member countries and the European Parliament in the spring of 2006 the latest. There is no reason why to anticipate some rounds of negotiations before May 1st of 2004, when the new members would become full parties of the negotiations. Any preliminary

talk with their exclusion, whatever its subject, could undermine confidence and give room to justified or unjustified speculations. If the new member countries were faced with a budget plan for 2007 to 2013, in which the mentioned inflexibilities would be further increased and the still available manoeuvring room for restructuring would be curtailed, it would be very difficult to have a successful enlargement. The new entrants must be given full right to attend these talks and try to make a more equitable balance of resource distribution. Due to their (relatively) limited bargaining power, to their lack of experience and, as in the past, to the disunity in the process or at the final stage of negotiations, a wonder must be produced to have a substantially differently structured budget, with clear priority to be given to the new and poorer member countries.

Certainly, the guidelines of the new seven-year budget will be different from those of the current budget. This comes both from the much larger number of poorer countries and regions, and the new priorities of the enlarging EU that should be financed from Community resources. Proposals to throw out the CAP as such of the EU budget (see the Sapir Report to the President of the Commission this summer), should be forgotten, not because they are not justified, but because of the political obstacles to implement them. Other ideas, according to which the structural and cohesion funds did not provide incentives to economic growth and modernization in the less developed countries, therefore they have to be completely remodeled or renationalized, are even more dangerous and politically counterproductive. It is simply not true that the EU resources did not contribute, and in some cases to a large extent, to the catching-up process of Ireland, Portugal and Spain. If it were the case, it would hardly be understandable, why these countries are still fighting for each Euro and against any idea to change the status quo they had been enjoying over two decades or more.

Until now, the Commission did not present any clear guidelines concerning the future of the budget, including the priority objectives valid for the structural and cohesion funds. Nevertheless, internal discussions are under way and various versions have been aired in the last months. It would, however, be too early and less professional to enter this area of speculation. It is much more important to insist on the following issues:

- the equal-footing situation in the CAP payments has to be created as soon as possible (and, in this respect, any kind of reform is acceptable, even a full renationalization of the agricultural policies, provided that all member countries do it at the same time and at the same speed),
- the special treatment of the areas with GDP per capita below the 75 per cent level of the EU average (whether this average is calculated on the basis of the current members or the lower figures of the new entrants are taken into account as well) has to be preserved. Phasing-in and phasing-out schemes are acceptable, however, they should be as short as possible in order to achieve equitable status soon after 2007,
- new community policies require more financing and the new members are

rightly advised to support them, partly because they will be the above-average beneficiaries of such policies (e.g. justice and home affairs, but also common foreign policy), partly because in this way they can contribute to the reshaping of the EU and to an enhanced role of the European integration in global affairs. Any future-oriented change is expected to favour the new member countries which have revealed a high level of economic, institutional and social flexibility in the last decade, in contrast to „sleeping Western Europe",
- last but not least, new priority objectives have to be formulated by the Commission in order to ensure more equitable distribution of resources and exclude or at least limit any kind of „national blackmailing".

It does not matter how justified the last requirement is. There is a chance to let it accepted by the other member countries only if the new members can elaborate, take and keep a strictly common position from the very beginning until the end of negotiations on the coming budget. More importantly, they have to agree on a common priority which cannot be declined by the current member countries. It is not difficult to identify this common objective, since each of the eight Central and Eastern European country (plus the next entrants of South Eastern Europe) is less developed than the current beneficiaries of the EU. Therefore, they have to get a preferential treatment. The question is, where these preferences should be allocated and to what extent they will be able to create a geographic restructuring of available financial resources.

By far the most viable approach is the introduction of a new overarching regional objective, based on the fact that the new members constitute the geographic core of Europe and all of them have common continental borders. In contrast, all previous enlargements in general, and those by less developed countries in particular, have included „peripheral" countries in geographic terms. Therefore, it was natural to support national economies, even if intra-state regions were the beneficiaries. Moreover, the cohesion fund became completely operational on the national levels. This approach should have limited validity in the case of Central and Eastern (and South Eastern) Europe. The quick catching-up of the whole region, based on political stability and economic modernization, is crucially dependent on the quality of physical and human infrastructure of the respective countries. The geographic cohesiveness of the region and the pivotal role of infrastructure development argue for a special regional fund that would finance common projects from the Baltics to the Black Sea and the Adriatic. The positive results are more than evident. First, national prestige projects, several times financed by EU resources, would give way to multi-country regional projects. Second, all countries not involved into the first wave of „Eastern" enlargement, should participate in these projects (if necessary, with the pre-accession funds assigned to them). This would have a very transparent political and psychological message to the societies that they are not „forgotten". Just the opposite, they could become part of all-European projects well before they may reach institutionalized membership in the EU. Third, more developed infrastructure would support economic activities and create new

business opportunities both for domestic and for international capital. (It is a well-known fact that the geographic map of the expansion of foreign investors largely overlaps the map of physical infrastructure of the given country.) Fourth, cooperative willingness and solidarity between and among the CESE countries could be enhanced.

Only such a new objective would be able to manage a major redistribution of the EU budget towards the less developed new member countries. And only if negotiations on the future of the budget start with the identification of new objectives there is a real chance of getting rid of horse-trade-like blackmailing about every Euro 1 mn. If the new member countries start negotiating on sums and amounts of money, no major change can be realistically expected, since the discussion will center on and end up in an unholy contraposition or even agreement between Germany and Spain.

Evidently, the above described approach takes into account that EU resources to be devoted directly to national development plans would be reduced, since part of these plans will be implemented on a supra-regional level. It goes without saying, that for supra-regional projects new institutions are necessary, or, even better, Brussels could become the coordinating agency, in cooperation with national authorities which are supposed to work closely together as well.

Finally, the success of such an approach crucially depends on the willingness of the participating CESE countries. There is no doubt at all, that all countries of the region share the priority objective of developing their physical infrastructure and creating or improving cross-border contacts. However, they have to share this approach from the very beginning till the end of negotiations and resist any kind of „distorting“ offers and pressures, whether they come from some EU member countries, from transnational companies or, most probably, from their own domestic lobbies. It is difficult to assess the probability of success of this effort, since no official statement has been made as of yet, and the author does not have any information whether such an approach would have been seriously discussed among the acceding countries. Nevertheless, it is obvious that the likelihood of success fundamentally depends on the formulation of a common development objective by all new entrants (plus the members of the next wave of enlargement), as well as the firm representation of this project during the official negotiations on the future structure of the EU budget.