REGIONAL POLICY OF THE EUROPEAN UNION

ABSTRACT

The author analyses the development of the European Union’s regional policy since 1988 and possible changes that could occur after the eastward enlargement. He examines Delors I and Delors II budgetary packages, covering the period 1988-2000, main principles and objectives, their changes over time and instruments of conducting the policy - Structural Funds. The author also analyses the preparations for enlargement within the scope of Agenda 2000 report, its contents, negotiation process for its adoption and changes made by it. At the end, he examines the effect that regional policy has made so far and possible obstacles for the forthcoming enlargement.

Member states of the European Community are anxious to ensure their harmonious development by reducing the differences existing between various regions and the backwardness of the less favoured regions (Preamble to the Treaty of Rome 1958)

In order to promote its overall harmonious development the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the various regions and the backwardness of the least favoured regions, including rural areas. (Article 130a, Single European Act, 1986)

Economic and social disproportions in the European Union are very clear and significant and they show remarkable persistence over time. Even though there is a 28 year distance between these two quoted documents, it is obvious that the problem remains rather similar. After all these years the main

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2 This article is shorten version of the master thesis written under supervision of Prof. Renata Lizzi and defended at University of Bologna, Italy, in September 2002.
position, relatively speaking, was and still is held by structural problems and among them the most important one are regional disparities. It was noticed from the very beginnings of the European Economic Community, in the 50s’ and 60s’, that these disproportions can jeopardize the entire structure of the European integration, if neglected. Nowadays, the goal of EU is not for rich to get richer and for poor to get poorer, but to evenly divide the gains and losses according to the principle of solidarity. It has been noticed, in more recent years, that this goal could not be achieved if there is a common market with a single currency and if the actors on the market are not of equal or at least of a similar strength. Even though problem of regional disparities was noticed before 1988, a coherent communitarian policy was not created before that time, for many different reasons that go out of the scope of this work. These problems were dealt with mainly by national governments and communitarian actions were restricted to uncoordinated actions of European Regional Development Fund (ERDF), European Social Fund (ESF) and European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance Section) that were in financial term insignificant compared to funds allocated on the national level.

The governments of Western Europe confronted an economic crisis in the 1970s’ and early 1980s’. The poor competitiveness of European firms relative to their rivals from USA and particularly Japan contributed to large trade deficits. This was augmented by sharp increase in oil prices following the Iranian Revolution in 1979. European economies went in to a recession. Inflation and unemployment grew rapidly during the early 80s’. Business confidence was low and foreign capital started to flow out of Europe.

While the problem was evident, the response was not. Every member state tried to cope with it by itself but economic interdependence of the member states reduced the efficacy of such, not coordinated, measures. This caused for new ideas about markets and competition to emerge as a response to the problem of the European economy. It was realized that only a single European market could make a proper response to the problems that have emerged.

The European Council in Fontainebleau in 1984 marked a renewed commitment to accelerate European integration. A plan to consolidate the single market was presented. In January 1985, a new Commission came in office with Jacques Delors as its president. In his inaugural speech to European Parliament, Delors committed himself to complete the Single Market by 1992. The Milan European Council, in June 1985, approved the White Paper containing 300 measures (latter reduced to 282) that would have to be implemented to complete the Single Market by 1992. In December 1985, intergovernmental negotiations have brought the finalization of the discussion on the terms of a treaty reform that became the Single European Act.
1. DELORS I PACKAGE (1989-1993)³

In 1986, Single European Act (SEA) has been introduced to accommodate the changes in EC after the southern enlargement⁴ and to prepare the ground for completing the project of a creation of a common market, especially by altering the main decision rule in the Council of Ministers from unanimity to qualified majority (QMV). These changes had to have an impact on regional policy as well, that will turn out to be a major blocking point of the process.

George Ross, in his study of the Commission under Jacques Delors, argues that in the case of the SEA it was ”a matter of proposing a program to make good on the social and economic cohesion clauses in the SEA which would combine some serious commitment to prevent the single market from penalizing the EU’s less developed members and “paying off” new members Spain and Portugal”⁵.

Having in mind the importance of redressing regional disparities if a single market is to be created, in the SEA for the first time this issue is admitted in the form of a separate title dealing with regional policy. New Title XIV, articles 130a-e (now Title XVII, articles 158-162), named “Economic and Social Cohesion”, has been introduced. This has been the first attempt to connect the goal of Article 2 of the Treaty on European Community (TEC) ”harmonious, balanced and sustainable development” with the instruments of regional policy.

By analyzing the Title XIV of the Treaty on European Union, we can conclude that regional policy was to be conducted through the joint efforts of:

- European Investment Bank (EIB),
- Structural Funds (ERDF, ESF and EAGGF – Guidance Section) for the first time named and grouped in this way, and
- Coordination of member states economic policies for regional development.⁶

From this formulation is evident that Structural Funds were not aimed to make cohesion on their own but to supplement the effects of a free market and of the economic policies of the member states. At the same time, Article 130d required the Commission to rationalize and to reform the objectives and implementation of the structural funds.

⁶ Article 159 (ex Article 130 b) TEC.
The awareness of the importance of the regional policy for the deepening of the European integration was not a new momentum emerged after the SEA. Even 15 years before SEA, on the summit in Paris in 1972, Heads of State or of Government of the EC underlined the importance of redressing the imbalances in regional development, in a statement issued after the meeting:

“There can be no European Union without economic and monetary union, and no economic and monetary union without adequate and effective regional policy backed by a fund with substantial resources... the Heads of State or of Government agreed that a high priority should be given to the aim of correcting, in the Community, the structural and regional imbalances which might affect the realization of Economic and Monetary Union.”

Even though all the actors were afraid about the danger of poorer members states joining the common market unprepared, finding the necessary funds was not an easy task. The Delors I package provided for a significant increase of structural funds so that by 1993 they would account for 25% of the community budget, compared to 9.1% in 1987, making a total of ECU 68 billion in the period 1988-1993. The biggest adversary to this increase of funds was UK’s Prime Minister, Margaret Thatcher. Even though a framework agreement on the size for the structural funds were agreed at the time of the signing of the SEA by all the member states, France has shown some last minute reluctance to the Commission plan, thus giving a significant support to the UK.

This disagreement has reached its pick in the Summit in Copenhagen, in December 1987. British government did not except the new budget even with the wider budgetary rebate from the Community and some changes in the CAP offered by the Commission; France and Germany were in favor of the new structural policy but not on behalf of the changes in CAP. Poorer EC countries (Ireland, Spain, Portugal and Greece), informally led by Spanish Prime Minster, Felipe Gonzales, did not want to step back in their attempts to get larger funds. The summit was a complete dissatisfaction and the faith of entire common market was put under question. To prevent a deep crisis with an uncertain ending, Germany (which held the presidency of the European Council at the time) has called for extraordinary summit in Brussels in February 1988. There, Heads of State or of Government reached an agreement on the doubling of structural funds, only after Germany accepted to pay for most of the costs of the Delors I package.

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Major changes made by Delors package were:

- Doubling of structural funds in real terms, reaching 25% of EC budget in 1992;
- Defining Principles of conducting structural operations;
- Defining five Objectives and standards, which have to be fulfilled by regions if they want to be eligible for receiving the funds.

1. 1. Principles

The Commission established four principles for relating the structural funds to the objective of economic and social cohesion. With these principles, the Commission wanted to support further development of the common policy and to create a more autonomous role for itself in regional policy.

These principles were defined as following: Programming, Concentration, Partnership, Additionality.

Programming

From 1988, EC started to conduct its regional policy by financing mid-term programs instead of case-by-case projects. These programs could be initiated at a national level or at a community level as a Community Initiative (CI). They could be financed by one or more structural funds. In the period 1988-1999 about 90% of the funds went towards nationally initiated programs and 9% towards CIs.10

Programming involves the preparation of multi-annual development plans and is undertaken through partnership based decision-making process, involving national, regional and local levels of authority (government) entrusted with carrying them out.

These, development and conversion planes are first submitted by Member States. They are based on national and regional priorities and they include:

- A precise description of the current situation in the region (disparities, lags, development potential);
- Identification of main objectives and a description of the most appropriate strategy for achieving the stated objectives;
- Specific indicators about use and form of contribution from the Funds.11


Member states submit programming documents to the Commission following these general guidelines. Once adopted the program is monitored and assessed by Monitoring Committees at national, regional and local level. There are three types of evaluation of the program. The authorities of the Member State carry out the ex-ante evaluation. The authority managing the program in cooperation with the Commission does the mid-term evaluation. The ex-post evaluation is the duty of the Commission in cooperation with the Member State and the authorities managing the programs.

**Concentration**

The experience from previous period has shown that only concentration of funds on the most problematic regions could increase the efficacy of the policy. That is why Delors I reform introduced concentration as a principle of implementation of structural policy. Imposing consistent geographical and economical criteria for being eligible for structural help did this. This principle was improved with the introduction of the Cohesion Fund in 1994, which has focused all its assets only on four countries of EU (Ireland, Spain, Portugal and Greece). This principle was additionally tightened in 1999 reform (Agenda 2000) by reducing the percentage of population living in regions eligible for funding as well as by reducing the number of Objective financed by structural funds.

**Additionality**

From the very establishment of the Structural Funds this has been an extraordinarily painful issue. The idea of additionality is to make community support additional to those funds that would be used by national governments any way even if there were not community funds. In other words, community funds were not created to substitute national grants but to support and integrate them. From the very beginning, governments were trying to do exactly this, to substitute national funding with communitarian ones. Some governments were especially persistent in that, especially UK, and in general, it was the common practice before 1988 reform. This reform sought to ensure the additionality principle by linking the grants to the full respect of the principle. To insure the application of the principle, the governments are required to demonstrate additionality when submitting their programming documents to the Commission. The Commission had a right to withhold the funds if the government does not act in accordance with its obligations. This happened in practice in 1991, when Commission froze funding of the Community Initiative RECHAR in UK, because of additionality dispute.\(^\text{12}\)

**Partnership**

With the introduction of the this principle, the 1988 reform, for the first time, has called for the close involvement of regional and local authorities in the planning, decision-making and implementation of structural funds. The idea behind this step is to increase the efficacy of allocated funds, taking into account the specificities of different regions and involving the regional and local authorities. The other idea was to weaken the influence of the national governments on allocation of funds by working at the same time directly with the national and sub national levels of governance. This opportunity to work directly with regional and local authorities gave the Commission a powerful ally in her constant attempts to make Structural Policy as much communitarian as possible. With the same aim, of giving stronger voice to the local and regional authorities, an advisory body, Consultative Council of Regional and Local authorities was established (in 1994 it will be transformed in to Committee of the Regions\(^{13}\)).

This principle has forced regional and local authorities to became much more active in lobbying in Brussels and in national capitals for their interests by opening offices and by networking among each other finding that often they have the same interests and that, if lobbying together they have a stronger voice.

1. 2. Objectives

The five major objectives financed by structural funds have been defined by reform in 1988. They have been defined as follows:\(^{14}\)

- **Objective 1** covered less developed regions with GDP per capita less that 75% of the EU average (measured in Purchasing Power Standards, PPS). Some member states insisted that this criterion had to be loosened, in order to include certain additional regions as a condition of their agreement for the whole package. Council decided eligibility for this objective meaning that some regions above 75% threshold received help based on this objective. It included 21.7% of population of EC.

Sources of finance were the funds: ERDF, ESF, EAGGF – Guidance Section, EIB and ECSC. Almost 80% of ERDF and 60% of ESF were spent for Objective 1 in this period. Making about 70 % of total funding.

- **Objective 2** covered regions affected by industrial decline, where unemployment level is above the EU average. Eligibility for this objective is

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negotiated between the Commission and the Council. It included about 16% of EC population and making 11% of the total funding. Objective 2 mainly supports small and medium enterprises.

Sources of financing were: ERDF, ESF, EIB and ECSC.

- **Objective 3** was aimed to combat long-term unemployment. Supports workers older than 25 years that are unemployed for more that 12 moths.

  Sources of finance were: ESF and ECSC.

- **Objective 4** was aimed at facilitating the occupational integration of young people, less than 25 years of age. With Objective Three together consumed just less 10% of total funding.

  Sources of finance were ESF and ECSC.

- **Objective 5** was aimed at promoting the development of rural areas mainly via diversification from traditional agricultural activity. It received around 9% of total funds.

  Source of finance were: EAGGF – Guidance section.

### 2. DELORS II PACKAGE (1993-1999)\textsuperscript{15}

By the end of 1991, project of creation of a Single Market envisaged with the SEA in 1986 was almost finished. The EC has reached a new level of integration that required at this point a change in the structure of the Community. This new step was the creation of European Union in 1991 with the Treaty on European Union (TEU) signed in Maastricht (entered in to force in 1993).

TEU has, among other institutional, political and economical reforms, set out a timetable for full economical and monetary union by the end of the decade. By setting such a high goal, member states gave a new meaning to economical convergence. As it was noted before, strengthening economical and social cohesion, is necessary precondition for the establishment of economic and monetary union and the lack of it could undermine the entire project. Article 2 of TEU explicitly places the strengthening of economical and social cohesion as a tool towards reaching the objective of balanced and sustainable development.

Creation of a full economic and monetary union by the end of the 1990s’, has been a major challenge set before countries lagging behind as well as to the whole Union. To deal with this challenge member states used the same approach used in bargaining over Delors I package.

To make the negotiation process easier, they have divided it in two stages. The first step was agreeing about the objectives to be achieved and goals to be

\textsuperscript{15} Delors II is a popular name of the budgetary package proposed by Commission president Jacques Delors to pay for implementation of the Treaty on European Union (TEU).
reached in the Treaty of Maastricht. The second and much more difficult phase was negotiating the exact details of how these goals should be financed and implemented. The agreement on the second phase of negotiations was reached in Summit in Edinburgh in December 1992.

Having in mind the importance of the strategic decision that has been made (to create EU) and expected increase in Structural Funds, some member states wanted already at the time of Summit in Maastricht to have stronger insurance, that those future financial details would be solved in their favour. This resulted in creation of a Protocol on Economic and Social Cohesion, annexed to the TEU. This Protocol has made a framework agreement among member states, giving broadly set basic elements of the future Edinburgh Agreement that would be incorporated in to the new structural fund rules, coming in to force in 1993.

The Protocol called for doubling the funds devoted for regional development in the previous period. The Protocol also states “this implies large transfers, especially as a proportion of GDP of the less prosperous member states”. It expresses that there was ”a desire for greater flexibility in the arrangements for allocations from the structural funds”. There was also a “desire for modulation of the levels of the Community participation in programs and projects in certain countries” and “to take greater account of relative prosperity of member states”.

From these quotations, it is evident that the member states wanted to get free from restrictions imposed on them by 1988 reform. They were especially irritated by the principle of additionality. They were willing to support creation of a new fund (Cohesion fund) in exchange for relaxation of the additionality principle.16

All these proposals had a very clear aim. They were designed to increase the power of the member state governments at the expense of the Commission and sub national authorities.17

2. 1. Changes in Structural Funds

In Summit in Edinburgh in December 1992, the fundamental features of Structural Policy have been left unchanged. However, several changes have been made in the area of structural funds (increase of available funds, redefinition of Objectives eligible for assistance and the creation of a new structural fund).

2. 1. 1. The Edinburgh Summit (Increase in funds)

In order to meet the additional costs of implementing the TEU, the Commission originally proposed increase in the budget ceiling from previous

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16 This had a very well founded economical logic behind. Cohesion Funds would be set at around ECU 16 billion and Structural Funds around ECU 180 billion. Difference is evident.

1.2% of EU GDP to 1.37%. It also proposed increase in spending on regional policy, 66% for Objective 1 and 50% for other Objectives, ECU 11 billion for new formed Cohesion Fund, the 12% of Structural Funds would go to Community Initiatives; (in aggregate, the four poorest countries would received a 100% increase of funds).\(^{18}\)

Such an ambitious plan had to have a very cold reception. No progress has been made during the Portuguese presidency in the first part of 1992, so the agreement was postponed for the Summit in Edinburgh in December 1992. Great Britain, in the Councils presidency at the time, had little consideration for Delors II and was afraid about the future of its budgetary rebate. At the same time, Germany, the country that usually financed such ambitious plans, having large costs on unification was rather unwilling to bare any further financial burdens.

On the other side, were the four poorest member states, again unofficially led by Spanish Prime Minister Felipe Gonzales, and they were very determined in the attempt to peg the creation of the EMU with an increase in the Structural Funds.

Under these conditions, Heads of State or of Government met in Edinburgh.

At the Edinburgh Summit, member governments agreed to increase the size of the structural funds from ECU 18.6 billion (in 1992 prices) to ECU 30 billion in 1999 (at 1992 prices) reaching the ECU 177 billion for the budgetary period 1993-1999, or 36% of the EU budget.\(^{19}\) This was not the doubling of funds, as it was agreed in Maastricht, but never the less increase was substantive (40%), having in mind, that this was a second large increase in five year following 1988 reform. At the same time the Commission’s, proposals for increasing the budgetary ceiling to 1.37% was only partially approved, fixing the ceiling to 1.27% and extending the programming period to six years in order to align with Community budget planning.\(^{20}\)

Heads of State or of Government also agreed about allocations of funds among Objectives, but in the area of allocation of funds among the member states, there has been only a vague agreement set at the time. The exact determination of shares among member states and the list of regions eligible for receiving the funds have been left for later. Never the less it was clear that outline promises were made, as every time before, in order to reach the agreement in Edinburgh and to

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conclude the Summit successfully. Only after further negotiations in the Council, the share for each member states was determined enabling the whole package to be passed in the late 1993.

2. 1. 2. Objectives 1993-1999

In the field of the objectives for this period, minor changes were made, and the basic structure created in 1988 reform has been maintained.

The number of the regions covered by Objective 1 increased to cover over a quarter of the European Unions population (only Denmark and Luxemburg had no Objective 1 regions21). At the same time, a new objective has been introduced. To help regions dependent on fishing a new Objective 5a has been added and ex-Objective 5 became new Objective 5b - support of rural areas. A new Objective 4 was introduced to facilitate adaptation of employees to industrial change and restructuring and previous Objectives 3 and 4 have been merged in to new Objective 3.

In 1995 three new countries became member states: Austria, Finland and Sweden. They have brought completely new type of regions lagging behind. These are areas with low population density, located in the north of Sweden and Finland. With the Act of Accession of Austria, Finland and Sweden a new Objective was introduces, Objective 6, in order to help in redressing the structural problems in these regions.22 In this way, the number of objectives in the period 1993-1999 was raised to seven and the allocation of funds was the following:

- Objective 1: supports less developed regions with GDP per capita less that 75% of the EU average (67.6% of whole structural funds);
- Objective 2: supports regions affected by industrial decline, where unemployment level is above the EU average (11.1%);
- Objective 3: aimed to combat long-term unemployment (supports workers older than 25 years that are unemployed for more that 12 months) and to facilitate the integration of young people and other social groups in the labour market;
- Objective 4: supports the adaptation of workers to industrial change (taken together Objectives 3 and 4 received 10.9% of the structural funds);
- Objective 5a: for the adjustment of agricultural and fishery sector in conjunction with the reform of the Common Agricultural Policy (5.0%);

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22 Regions eligible for assistance under Objective Six were regions with population density less than 8 inhabitants per square kilometre.

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• Objective 5b: supports economic diversification of vulnerable rural areas (4.9%);
• Objective 6: aimed to structural adjustments of regions with an extremely low population density in Finland and Sweden, (0.5%).

This increase in the number of priorities and related Objectives lead to increase in the percentage of EU population covered by Regional Policy. In this six years period around 51% of EU population lived in a region, eligible for European regional support under different objectives.

To provide a single, uniform breakdown for the production of regional statistics, the Commission has established the Nomenclature of Territorial Units for Statistics (NUTS). The nomenclature divides each Member State into a number of NUTS I regions; each of them, in turn, is sub-divided into NUTS II regions, which are again sub-divided into NUTS III regions. In total, there are 71 NUTS I regions, 183 NUTS II regions, and 1044 NUTS III regions.

2. 1. 3. Financial Instruments for Fisheries Guidance (FIFG)

The Financial Instruments for Fisheries Guidance (FIFG) has been created in 1993, as a response to the crisis in the fisheries sector in the early 1990s’, with the aim of helping the sector in restructuring process. It gathers all instruments of the Union for fisheries policy. FIFG became the fourth structural fund and in the period from 1993-1999, it financed a part of the objective 5a.

The objectives of the this fund are to contribute to a substantive balance between fisheries resources and their exploitation, to increase the competitiveness of structures and the development of viable enterprises in the sector, to improve the value-added in fisheries and aquaculture sector and revitalize areas dependent on them. In the period 2000-06, € 1.106 billion will be devoted for the FIFG operations.

2. 2. Cohesion Fund

Treaty of Maastricht has set as a formal goal the creation of Monetary Union (EMU) by 1999. At the same time, it sets the convergence criteria that have to be fulfilled if a member state wants to join EMU (Article 121 TEC (ex 109j)). One of these criteria is the control of public finances (public debt should be less than 60% of GDP and fiscal deficit less than 3%).

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These conditions required large effort from member states, and the poorer countries were the ones with the most difficulties in bringing public finance under strict control. They found themselves between two divergent goals: either strict financial discipline in order to join the EMU or economic convergence and development to catch up with the richer members of the Union; and it demands for higher public expenditure on investments.

In order to help these countries to meet the convergence criteria, a new fund was created to be operational before 1994. This is the Cohesion Fund.

The Fund had the aim to enable all member states to join the final phase of the monetary union as rapidly as possible, by helping those with the greatest number of problems to overcome them, and by strengthening at the same time social cohesion within the Union.26

With an aim defined in this way, Cohesion Fund is very different from all the other structural funds. While the others deal with problems of regional disparities, declining industry or unemployment, financing medium term programs, Cohesion Fund is an instrument for helping few member states to finance important, single projects.

The Protocol on Economic and Social Cohesion (annexed to TEU) defines that “Community financial contributions will be made to the member states of the Union which present a per capita GNP of less than 90% of EU average, and elaborate a program leading to the fulfilment of the conditions of economic convergence”.27 With this provision, four countries of the EU were marked as eligible to receive assistance from the Cohesion Fund: Spain, Portugal, Ireland and Greece, with the total population of almost 63 million inhabitants (around 25% of EU population).

Article 161 TEC (ex 130d) states that Cohesion Fund “shall provide a financial assistance to projects in fields of environment and trans-European networks28 in the area of transport infrastructures”. These two areas have been chosen because of large amount of funds required for their implementation. Besides this, projects in these fields are important source of economic activity and long-term employment and those four countries have in general very high level of unemployment. In addition, financing the improvement and modernization of transport infrastructure is essential for connecting these peripheral countries to the economic core of the Union.

28 Title XV TEC (ex Title XII) is devoted to trans European networks. These network have been developed by the EU to improve existing transport and communication links and to fill-in the missing links in order to promote harmonious development of the Union (Article 158 TEC).
TEU also stated that all the projects must contribute to economic development of the member state and must be of a scale sufficient to have such an impact (the overall value of the project must be above € 10 million). To meet this criterion all projects have to pass a prior evaluation done by the Commission, usually with the assistance of the EIB, with the scope that would guarantee that the “medium term economic and social benefits are commensurate with the resources deployed”.  

The Cohesion Fund covers between 80-85% of the expenditure on a project. From the year 2000, this rate may be reduced to take account of any revenue generated by the project and of any application of “polluter pays” principle. Projects financed by the Cohesion Fund could not utilize at the same time any other structural fund. The use of Cohesion Fund is being monitored as the other funds with an ex-ante, mid-term and ex-post control, and the financing could be stopped at any time if a member state makes a breach in the convergence program that it has prepared at the time of the application for the Fund. At the 1992 Edinburgh Summit, the European Council decided that ECU 15 billion (at 1992 prices) would be made available to the Cohesion Fund for the period 1993-1999. In Annex 3 of the Edinburgh Communiqué, a provisional division of Fund up to 1996 has been made among four member states mentioned above, so Spain would get 52%-58%, Greece and Portugal 16%-20% and Ireland 7%-10%.  

Regulation establishing Cohesion Fund in 1994 laid down the final division of available resources among recipient countries. The Regulation also states that a sustainable balance should be made between financing for transport infrastructure projects and financing for environmental projects. Furthermore, total annual receipts of these Member states from the Cohesion Fund in combination with the assistance provided under Structural Funds (for period 2000-2006) may not be above 4% of their GDP.  

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After the analysis of these two budgetary periods (1989-1993 and 1994-1999) we can reflect briefly about what has been done. According to the official data of the EU, the Structural Funds and the Cohesion Fund have already contributed substantially in reducing regional

32 Regional policy, Inforegio, "What has been achieved", Internet, 10/08/2002/, http://europa.eu.int/comm/regional_policy/intro/regions10_en.htm

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disparities. The reduction in the gaps between average per capita incomes\(^{33}\) between regions and especially between member states has increased. In the poorest regions, where 10% of the Union’s population lives, per capita GDP has risen from 54.2% of the Community average in 1987 to 61.1% in 1997. At the national level, the convergence has been even more marked for the least prosperous countries (Spain, Portugal, Ireland and Greece) with average GDP per capita raised from 67.6% in 1988 to 78.8% in 1998.

\[\textbf{Table 1. Growth of GDP in four poorest member states of EU (in PPS)}\]

<table>
<thead>
<tr>
<th>Country/Year</th>
<th>1988</th>
<th>1998</th>
</tr>
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<tbody>
<tr>
<td>Greece</td>
<td>58.3</td>
<td>66.0</td>
</tr>
<tr>
<td>Spain</td>
<td>72.5</td>
<td>81.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>63.8</td>
<td>108.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>59.2</td>
<td>75.3</td>
</tr>
</tbody>
</table>

Regional Policy, Inforegio,”What has been achieved“, Internet, 10/08/2002/, http://europa.eu.int/comn/regional_policy/sources/docoffic/official/reports/pdf/tab.pdf

Some authors\(^{34}\) doubt these conclusions, arguing that it is true that gap between member states is narrowing but, at the same time, gap between poor and rich regions is remaining and, in some cases, it is even deepening (especially in Britain).

These different statements only show the full complexity of European Structural Policy. Different economic performances of Greece and Ireland (See Table 1.) show that funds received under Structural Policy are only one of the causes of economic and social development. Anyway, it is very hard to measure the impact of European Structural Policy, isolated from the other factors determining the growth. The key in economic and social development in the poorer member states appears to be a combination of sensible macroeconomic policies, a favourable international economic climate, large allocations of funds from EU and close coordination in the formulation and implementation of regional policies at the European and national levels.\(^{35}\) Even though we cannot calculate separately the impact of the EU Structural Policy, it is evident that a large portion of the progress made in these years has to be related to it.

\(^{33}\) Measured in PPS (purchasing power standards) to get a clearer measurement.


3. AGENDA 2000. PREPARING FOR THE ENLARGEMENT

Since its foundation as the European Economic Community in the 50s’, the EU has had four enlargements. In 1973, the United Kingdom, Ireland and Denmark joined the Community, followed by Greece in 1981 and the Iberian enlargement of Spain and Portugal in 1986. The last enlargement was in 1995 when Sweden, Austria and Finland entered EU.

None of these enlargements was without problems. Never the less, all the problems that EU has been facing with previous enlargements could not be compared to the problems that so-called Eastern Enlargement is generating.

After the fall of the Berlin wall in 1989 and the dissolution of the communist block, all the Central and East European Countries (CEEC) saw their future in joining the European Union. This led to the situation that 12 countries36 applied for the membership of the EU at same time.

This is a first reason that is making a difference with all the other enlargements. Never before, there were more than three countries applied at the same time. The great number of applicants presents a big problem. Even though these countries are relatively small, except for Poland that is about of the same size of Spain, and Romania that is of a size of Holland, put together these countries represent 28.3% of the population of the EU.

The second thing that differentiates this enlargement from the previous ones is the poor condition of the economies of the applicant countries. As a group, 10 CEEC have a level of GDP per capita that is less than one-third of the EU average and less than a half of the GDP of the four EU poorest member states (the Cohesion countries), measured in PPS. Divided by countries it ranges from 23% in Bulgaria to 68% in Slovenia in comparison to 74% in Portugal. 37

One of the major problems that EU is facing with this enlargement is the low income of potential members states and the impact that their accession could make on current state of policies in the Union, especially in the domain of Structural Policy and Common Agricultural Policy.38

If the enlargement would proceed only with five most prosperous countries within CEEC,39 it will add to the EU the equivalent of a country with the population

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36 Ten ex-communist countries: Estonia, Lithuania, Latvia, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania, Bulgaria (CEECs) and two Mediterranean countries: Malta and Cyprus.


38 Enlargement will present a significant problem for institutional setting of the Union as well, specially in balance of power within the Union and in the decision making process (qualified majority voting, representation in the Commission…) but that is out of the scope of this work.

39 In this group are: Czech Republic, Poland, Hungary, Estonia and Slovenia.
the size of France, but with an economy smaller than that of Austria. The accession of all 10 CEECs would add to EU the equivalent of a country with a population as large as that of Germany, Belgium and Netherlands put together, but with an economy smaller than that of the Netherlands and a GDP per capita more than one third that of Portugal.\textsuperscript{40} This would mean, that in the case that all ten CEECs are accepted, the average of GDP percentage of the Union would decrease by 16\textsuperscript{,41} changing totally the geography of rich and poor countries and regions. This would more than double the population eligible for structural support under Objective 1. At the same, time with a large and generally inefficient agricultural sector, employing more than 22\% of their labour force (compared to 5\% in the current members states) these new member countries would be the major recipient of the CAP assistance.\textsuperscript{42} Even though Bulgaria and Romania will not be in the first wave of accession, the situation does not significantly change for the better.

According to the 1995 Commission estimates, the extending of the current Structural Funds to all ten CEECs would add another € 38 billion to the EU budget, more than doubling present structural policy expenditure.\textsuperscript{43}

Through the history of the EU, all the previous enlargements were followed by the increase in budgetary spending needed to accommodate them, and these increases were paid by the reach member states, mainly Germany and Great Britain until 1980s’. For the first time, this is not the case. Biggest net contributors to the EU budget, Germany and Netherlands, are not willing to pay for extra expenses and are very determined to decrease their net contributions.

This situation calls for internal reforms that would adjust the Union to the new conditions, caused by the enlargement. These reforms have to be of two main types: changes of the EU decision making institutions and procedures, enabling efficient functioning of an enlarged Union, and substantive reforms of, at least, two main EU policy areas in budgetary terms (regional policy and CAP). In addition, the EU financing system should be adjusted, so the EU could be affordable to the member states.\textsuperscript{44}

In addition, as a response to the challenge created by the eastern enlargement, the Commission published in 1997 a Report called “Agenda 2000”

\textsuperscript{40} These data are given here just for the sake of discussion. In November 2002, the Commission has announced that 10 applicant countries could join us 2004 and Bulgaria and Romania in 2007.


that contained the Commission proposal for reforming CAP and structural funds, the proposed EU financial perspectives for 2000-2006 and the Commission recommendations on enlargement strategy.\textsuperscript{45}

3. 1. Agenda 2000 (Proposal)

3. 1. 1. Regional and Cohesion Policy

With the 1993 reform (Delors II package), funds available for regional policy were limited to 0.46\% of EU GNP. Most of the member states were unwilling to accept a budgetary increase above the level of 1.27\% of EU GNP. This has made the reform of the regional policy an important precondition for enlargement. If the new member states would be allowed the access to structural funds under current conditions, this would lead to more than doubling the expenditures. At the same time, denying or delaying these countries the structural aid is not just, because it is against the principle of solidarity and because the lagging behind of these countries would hurt the common market. On the other hand, the reform of the regional policy is difficult because it threatens the present gains, member states have. Especially poorer member states would be opposed to it, because of the financial benefits they have, and normally they would be against enlargement if this would reduce the amount of assistance they receive. To avoid the link between enlargement and policy reform, the Commission emphasized that these policies (regional and CAP) would have to be reformed even without the enlargement. In this way, antipathy towards policy reform would not turn as a negative vote on enlargement.

In Agenda 2000, the Commission declared that “economic and social cohesion must remain a political priority” for an enlarged EU. It proposed the maintaining the 0.46\% ceiling for structural spending until 2006. This amounted to total expenditure for the period 2000-2006 up to € 275 billion (at 1997 prices) of which € 45 billion would be dedicated for the new member states.\textsuperscript{46}

To meet the regional policy goals of an enlarged EU and to maintain the declared budgetary limit, the Commission proposed to consolidate regional policy operations both in geographical terms and in terms of objectives of assistance. Practically this means the reduction in number of Objectives from seven to three and the tightening up of the eligibility requirements for assistance.

- New Objective 1 (ex Objectives 1 and 6) would still have high priority on the agenda helping regions lagging behind, but 75\% threshold would be applied more strictly,


\textsuperscript{46} European Commission, Agenda 2000: For a stronger and wider Europe. p. 21.
• Objective 2 (ex objectives 2 and 5b) would include all regions facing economic and social restructuring, and

• A new Objective 3 (comprising ex Objectives 3, 4 and 5a) would assist member states in developing human recourses to fight unemployment.

This plan would reduce the proportion of the EU population receiving structural assistance under objectives 1 and 2 (from 51% to 35-40%) and would result in a slight decrease in annual funding for the present member states. Another novelty in this proposal is that, regions that would no longer be eligible for structural assistance would receive so-called “transitional support” in order to prevent negative effects of this change. National governments would get more control over the implementation of the policy. Commission also suggested that countries receiving assistance from the Cohesion Fund should continue to receive it in the present form, with an eligibility review to be carried out in 2003. Nevertheless, current member states should share the available funds with the new comers after 200247 (it was originally planed to accept new members in 2002 not 2004).

According to the Commissions plan, assistance devoted to the new members should grow gradually not exceeding the limit of 4% of their national GDP. The Commission estimated that structural aid to the new member states would grow to around €12.6 billion in 2006, thus reaching one third of the EU total structural spending.

To help the accession countries to prepare themselves for membership, the Commission had proposed the creation of two new pre-accession aid instruments: for agricultural (SAPARD) and for structural assistance (ISPA). Together with existing PHARE48 program, these instrument would be used for reconstruction and modernization of these countries and to help them to align their standards with the EU standards.

All the members were unanimous in supporting the motion to reform regional policy, having in mind its necessity but they were also unanimous in the attempt to make others pay for it. Two poles were created, between the budget net contributors (Netherlands and Germany), on one side and net beneficiaries from structural policy, on the other side (Spain, Greece, Portugal and Ireland). While the previous did not want to pay for enlargement again, the other group argued that without increase in the budget, the amount of funds they receive would decrease, thus indirectly making them pay for the enlargement. Almost every state had same region that would loose structural assistance, so, in March 1998, the Commission had to abandon its proposal

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48 SAPARD - Support for Agriculture and Rural Development, ISPA - Instrument for Structural Policy for Pre-Accession, PHARE - Pologne, Hongrie, Assistance a la Restructuration Economique.
of reducing proportion of the population eligible for structural assistance to 35% and raise it to 38%. However, the positions were still very diverse: Germany and other net contributors favoured a limit of less than € 200 billion to be spent in the period 2000-06, while Spain and other poorer members defended a ceiling of € 239 billion or more. Just before the Summit in Berlin in March 1999, Germany proposed a compromise level that would be found between € 190.5 billion and € 216 billion.49

3. 1. 2. Common Agricultural Policy

Ever since the foundation of Common Agricultural Policy in the 60s’, CAP has represented the main policy area with the largest amount of funds spent. In the 1979, it reached its peak by absorbing around 79% of EC budget. The MacSharry reform in 1992 eased this problem, so that today it consumes about 44% of EU budget. With such a large proportion of funds spent for this purpose, it would not be affordable for the present members states to let CEECs inside the CAP system without certain changes of the system.

In the 10 CEECs,50 about 22.5% of employed workers are employed in agriculture. The accession of CEECs to the CAP would almost double the agricultural labour force of the EU. The Commission’s report from 1995 estimates that in case of accession of 10 CEECs, CAP expenditure would increase about € 12 billion per year.51 This means that without substantial reform of CAP, impact of the enlargement on the EU budget would be intolerable.

In Agenda 2000, Commission proposed a reduction of the prices support by one third, and further shifting from price support to direct income payments to farmers. It also proposed lengthy transitional period before new members would have full access to CAP funds, mainly to direct income payments that make a great bulk of CAP expenditures. In this way the enlargement of the economically best five CEECs would cost only about € 3.9 billion per year.52

However, the most controversial part of the entire package was the proposal for partial re-nationalization of the CAP, by suggesting that national governments should take over the co-financing of the direct income payment to farmers, maybe even up to 25%.

This part of the Agenda 2000 was very harshly criticized both by the farmer lobby and by the member states. The greatest adversaries of the proposals were Germany, because of the loss in income its farmers would suffer, and France,

50 Bulgaria and Romania are included in these calculations even though they will join EU before 2007.
52 European Commission, Agenda 2000: For a stronger and wider Europe, pp. 62-63, 73.
Ireland and Spain because of the motion for re-nationalization, all major beneficiaries of the CAP.

3. 1. 3. Budgetary Framework

Controversies regarding CAP and structural policy could be seen only as parts of general issue of preparing the EU budget for enlargement. For many years, there has been a relatively clear division among net contributors to the budget like Germany, Netherlands, Austria and Sweden, on the one side, and net beneficiaries like Spain, Portugal, Greece and Ireland, on the other side. By the mid 1990s’, with the EU facing the eastern enlargement, this issue became increasingly important. In 1997, Germany accounted for about 62% of total net contributions and Netherlands about 13%. The largest net beneficiary was Spain with 34% of total net receipts. Net contributors did not want to pay more for eastern enlargement. Besides this, they also started to call for a reduction of their net contributions, when their budgetary position within the EU became an important issue in their domestic politics.

This was the reason why Commission’s starting point in preparing the financial perspective for the period 2000-2006 was that the 1,27% budgetary ceiling could not be changed upwards. In Agenda 2000, Commission proposed total spending of € 114,5 billion in 2006, a slight increase in absolute terms from the projected total of ECU 97,8 billion for 1999. Never the less, this proposal did not assure net contributors that a fairer distribution would be made, thus leaving the controversial question unresolved.

In October 1998, Commission published a report on “Financing the European Union”, admitting for the first time the existence of budgetary imbalances for certain member states. In this report, the Commission repeated its ideas of solving this problem with partial re-nationalization of CAP (co-financing) with national governments becoming responsible for a proportion (25%) of direct income payments to farmers. It also favoured elimination of British budgetary rebate (existing from 1984, Fontainebleau Summit). At the same time, the Commission stated that these changes are not urgent and that this could await the accession of new member states.

3. 2. Reaching the Agreement

Summit in Vienna, in December 1998, made little progress on reaching the agreement about Agenda 2000 proposal. After the Summit, all member states were more less on the same position as they were before the Summit.

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French Government was determined in its rejection of the proposal to co-finance the CAP. As a largest recipient of farm aid, France would be particularly negatively affected by this change. The British government also rejected the proposal to eliminate British budgetary rebate. On the other hand, German government argued that only co-financing of the CAP together with elimination of British rebate and a general correction mechanism for net contributors could be able to solve the problem of budgetary imbalances. Dutch government was also very determined to change its budgetary position threatening a first-ever use of veto to block financial deal that did not treat Netherlands fairly.

The only thing that Heads of State or of Government did agree was commitment to reach overall agreement on Agenda 2000 at the European Council on 24-25 March 1999.

Belgian Prime Minister, Jean-Luc Dehaene, gave the best summary of the Summit:

"Nobody wants to pay more, some want to pay less, nobody wants to get less and we all have to spend more for enlargement!"

By now it became evident that no separate arrangements could be made, but only together, CAP, Structural Funds and the Budget could be agreed as parts of the same negotiation process.

The failure to reach agreement on Agenda 2000 in 1999 would almost certainly start a period of crisis and uncertainty for the EU. It would also jeopardize enlargement and EU would start a new budgetary period 2000-2006, without a proper financial framework. All governments were aware of these facts, but much negotiation still had to be done.

First signs of progress appeared on the informal summit in Petersburg at the end of February. Even though no agreement was reached, some steps forward have been made. German Chancellor Schroeder backed away from insistence on co-financing CAP, thus offering a compromise to France. In addition, Heads of State or of Government made a general agreement on stabilizing the EU spending.

“Cohesion countries” (Spain, Portugal, Greece and Ireland) were against this proposal because they wanted larger funds; some member states (Belgium, Luxemburg) demanded actual freezing of the expenditure and net contributor countries (like Netherlands) asked the decrease in spending.

At the beginning of March, after the bilateral meeting of France and Germany in Bonn, the German Government announced that it was abandoning its proposal for co-financing of the CAP. Germany also proposed the decrease in price cuts of...
agricultural products, arguing that this would decrease the need for direct payments to farmers, thus leaving CAP unchanged. More reform-oriented countries were strongly against, as well as the Commission that pointed that costs of the enlargement, having unreformed CAP at the same time, would be unacceptably high. On March 11th, the final agreement was made following the German proposal. Reform oriented countries were not satisfied with the agreement, pointing out that it did not provide for gradual increase in direct income payments to farmers and that it exceeds the annual limit of agricultural spending of € 40.5 billion per year.\footnote{Ibidem, p. 159.} However, this agreement would not be final before overall agreement on Agenda 2000, Structural Policy and the Budget is reached in Berlin Summit, two weeks later.

At the opening of the Berlin Summit, Chancellor Schroeder appealed to all member states to show flexibility and readiness to compromise declaring that an adequate agreement “based on the principle of strict budgetary discipline, solidarity, fair burden sharing and balance” was necessary to open the door of the enlargement.\footnote{White, D., and Norman, P., Signs of EU Regional Funding Deal Emerge, Financial Times, March 24 1999, p. 3.}

Regardless of this appeal, the negotiations started with very diverse positions. France asked for reopening of the negotiations on CAP, Spain and other cohesion countries rejected the German proposal to set a ceiling to Structural and Cohesion funds on € 210 billion, at the same time as Netherlands called for € 190 billion ceiling. British government refused to accept any changes in British rebate.

On the third day of the Summit the Agreement was reached.

Because of the pressure from France, the CAP agreement was reopened and some price cuts in agricultural products were made. This reduced the need for increase in direct income payments and the entire CAP package was just above € 40.5 billion ceiling.

The agreement on structural policy was made, fixing the seven year total of € 213 billion for Structural Funds, including the Cohesion Fund. Number of Objectives was reduced from seven to three, reducing the proportion of EU population living in these regions from 51% to 42%. Transitional arrangements and special packages were agreed for regions loosing structural support. So-called performance reserves were introduced of total 4% of structural funds, to be distributed after mid-term evaluation to regions showing the best performance. The four poorest member states won the battle for preserving the Cohesion Fund for the period 2000-2006, with an increase in available funds from € 15 billion in 1994-1999 period to € 18 billion.

The budgetary framework for the next period is within 1.27% of EU GNP, thus leaving budgetary positions of members states more-less unchanged. Britain
succeeded in defending its budgetary rebate and Germany got its net contribution decreased below the previous level of € 11 billion per year.

Agenda 2000 also includes financial assets to accompany the enlargement process. € 3.12 billion per year were dedicated for pre-accession aid to the applicant countries. Agenda 2000 also includes resources dedicated specifically for the new member states, as post accession aid starting with € 4.14 billion in 2002 reaching € 14.22 billion in 2006.

Even though it has made a budgetary agreement for the next period, Agenda 2000 failed to make an agreement on reforming two main policies that would make the future enlargement affordable for the EU. This is the reason why Agenda 2000 was criticized from the outset by many commentators as insufficient.61 It is obvious that in order to accept new member states, specially Poland, EU will have to make radical reforms in CAP in near future. A new agreement on Structural Policy is also necessary to accompany the enlargement. The other solution is to exclude new member states from these policies.

3. 3. Regional and Cohesion Policy after Agenda 2000

Agenda 2000 reaffirmed the priority of economic and social cohesion, but it did not propose a dramatic increase in the share of EU recourses allocated to the Structural Funds. The Berlin European Council allocated € 213 billion for structural funds, of which €18 billion is dedicated to the Cohesion Fund. This is a slight increase of funds compared to the ECU 200 billion spent in the previous period. Another € 45 billion will be allocated for the post accession aid.62

Even though, drastic changes have not been made in available funds, they have been made in area of Objectives and regions eligible for support. Existing principles of conducting the policy, partnership, additionality, concentration and planning remained their central role, but the principle of concentration assumed a particularly important position. Having in mind the nearby enlargement, EU decided to concentrate available assets on smaller number of objectives. The number of objectives has been reduced from seven in the previous period to only three in the period 2000-2006. These objectives are:

Objective 1 (ex Objectives 1 and 6). Assistance will be concentrated in those regions where per capita GDP is less than 75% of the EU average. This will permit structural funds to be coordinated with national assistance (regional state aid) given by the member states. A transitional support regime will apply to those regions that were eligible under ex Objective 1 but which do not qualify under


proposed 75% threshold. It is predicted that 11 regions would lose their Objective 1 status under new arrangements. This means that the whole of Ireland is set to lose its Objective 1 status, and stands to lose its support from the cohesion fund, because it is now above 90% threshold. This objective covers a proportion of 24% of EU population and the large bulk of the structural funds (more than 60%) will be allocated to these regions.63

Objective 2 (ex Objectives 2 and 5b). This objective will include the following types of areas: areas affected by change in the industrial, service or fisheries sector; rural areas in serious decline because of a lack of economic diversification; urban districts suffering from a loss of economic activity. The new Objective 2 will take particular account of the unemployment rate and the level of change of industrial and agricultural employment. Areas that used to be eligible for assistance under ex Objectives 2 and 5b that are no longer eligible for assistance under new Objective 2 will receive transitional support. This objective covers a proportion of about 18% of the EU population.

Objective 3 (ex objectives 3 and 4). This is a non-regional objective covering entire territory of the EU, except regions under Objective 1. Its purpose is to support the modernization of education, vocational training and employment.

Besides the funds available for these objectives, in Berlin Summit, €11,142 billion was dedicated for transitional support. In addition, to satisfy member states whose regions would lose support and to accommodate the agreement on Agenda 2000 several special arrangements were made outside structural and cohesion funds.

Application of the principle of concentration led to the decrease of the number of Community Initiatives from 13 to only four in this period. At the same time, the available funds were reduced from 9% of the structural funds in the period 1989-1999 to only 5%.64

Even though, the Cohesion Fund has been established in order to help the poorer members (Spain, Portugal, Greece and Ireland) to join EMU, this fund continues to exist and to support these countries even after they have joined the EMU, fulfilling the convergence criteria set in Treaty of Amsterdam. Agreement made in Berlin summit has even increased funds available, to €18 billion (compared to €16 billion in previous period) for the period 2000-2006. Threshold set for eligibility for this fund is still 90% of EU average GNP, and in 2003, general review of eligibility will be conducted and countries above this limit will loose support accordingly. In addition, the Berlin summit set the framework amount of funds that each of these countries would

receive (Greece 16-18%, Spain 61-63.5%, Portugal 16-18% and Ireland 2-6%). Never the less, this division would change with the accession of the new member states that will share these € 18 billion with current “cohesion countries” until the end of the budgetary period in 2006, if the new members join EU before that time.

4. WHAT HAS BEEN ACHIEVED SO FAR?

According to the Second report on economic and social cohesion, adopted in 2001, present members of the EU could be divided into two categories. First category is made of the countries lagging behind, Portugal, Spain and Greece, where GDP per capita (measured in terms of purchasing power standards (PPS) to indicate relative levels of wealth) is only 67-82% of the EU average. The second group consists of the countries with a GDP similar or above EU average. Even though a significant convergence effort has been made by these countries to catch up with the rest, in the last two decades, the gap is still present. As a group, their GDP per capita rose from 68% of the EU average in 1988 to 79% in 1999.

Individually, the gap between Spain and Greece and the EU average narrowed by 9-10 percentage points in each case, and for Portugal by 17 percentage points. Although the overall gap in GDP per capita of the three countries with the rest of the EU was reduced by a one third over this period, at this rate of convergence, according to the Report, it would still take another 20-30 years for it to be eliminated. This fact shows the long lasting period of the convergence process and the persistence of the problem. Example that gives encouragement is the example of Ireland, a country that was in the 1988 considered to be lagging behind with a GDP on 63.8% of EU average and in the year 2000 its’ GDP reached the level of 118.9%, thus being much above the EU average.65

On the other hand, according to the same report, disparities between regions have also decreased but by less than on the level of countries. While in the 1988, 10 regions were below the level of 50% of EU average in 1998 only region of Ipeiros in Greece was below this limit with 41.8%.66 According to the Sixth Periodic Report on the Social and economic situation and development of the region of the European Union, adopted in 1999, GDP per capita in Objective 1 regions is converging to the EU average rising from 63.5% in 1989 to 69% in 1996, at the same time unemployment in objective 2 regions have increased from 11% in 1989 to 11.9% in 1997.67

66 Regional policy, Inforegio, ”What has been achieved”, Internet, 10/08/2002/, , Table 1.
Disproportions are still divided on two axes, North-South and Core-Periphery. The 10% of regions with the highest GDP per capita consist largely of northern financial capital cities (London, Hamburg, Amsterdam, Paris, Groningen) and the most prosperous southern German and northern Italian regions. The bottom 10% of the regions lagging behind are regions of Greece, French Oversees Departments, some regions of Spain, Portugal and South of Italy. The gap among these regions is very high with richest regions being 60% above EU average and poorest regions being 40% below EU average. In other words, in the top 10 regions, GDP per head is around 2" times that in the bottom 10.68 This gap is still present even though the average GDP of poorest regions have risen from 55% in 1988 to 60% in 1998. Nevertheless, this is an improvement comparing to the situation at the end of the 80s’ and on the beginning of the 90s’ when the gap was 4:1.69

According to the Sixth Periodic Report, a big contribution to this convergence could be attributed to the Structural Funds and their investments. According to the report:

"The Structural Funds have made a significant contribution to the reduction in regional disparities across the Union... they have added around 0.5 percentage point or more to the growth of Objective 1 regions. By 1999 the cumulative effect of the Funds is estimated to have increased the GDP of Greece, Ireland and Portugal by nearly 10 percent in each case and that of Spain by over 4%.”

Never the less, the Report also emphasis that improvements have been made only thanks to the good combination of structural aid, sound macroeconomic and other policies at national level.

Some authors like G. Therborn and A. Mathews disagree with this official report of the EU. According to G. Therborn, there is no case that the existence of EU led to economic convergence between member states and that “EU has contributed nothing visible to territorial convergence”. He argues that all the convergence between 12 EU member states took place regardless of the EU during the economic boom in the 1950s’ and 1960s’ ending in 1973.70 He also argues that there is no clear effect of EU membership on poorer member states. According to him rates of convergence listed before only show that it is not EU policies per se that generate growth that leads to convergence but the response of individual member states on the economic opportunities given to them within the EU framework.

Supporting this idea, A. Mathews argues that the best argument of convergence, the Irish example, is “mainly a statistical illusion”. For him, if Irish performance would be calculated in GNP per capita rather then in GDP, the figures would be much different because of the large income multinational companies are earning in Ireland that is evident in GDP but would be left out of GNP. He also argues that if we observe the level of the regions, the gap has increased in the late 80s’.\(^{71}\)

It is very hard to calculate the actual impact of structural policy individually and isolated from all the other sources of economic growth and convergence, and in the specific case of CEECs, from the process of political and social changes. However, its impact should not be overestimated but as well, it should not be underestimated. If structural policy does not mean so much would EU member states fight so much to preserve its aid for their own regions? We do not think so. However, we wish to underline once again that structural policy was never meant to be the only engine of progress but just to assist and to supplement the effects of a free market and of the economic policies of the member states as it was defined in Article 159 (ex Article 130 b) TEC. Only in combination with other EU and national policies, with a good national macro-economic policy and with a good response of individual member states on the economic opportunities given to them within the EU framework, it can make satisfactory results and increase the positive results of other policies.

5. HURDLES FOR THE ENLARGEMENT

Eastern enlargement is not just a question of money and economy, both for EU and for CEECs. It has many different aspects like: political, economic, security, social, geographical, historical, etc. Together, these aspects make the eastern enlargement a very complex issue.

The question of importance that regional policy has for the development of a country, brings us to the question of the importance it will have for CEECs once they become members of the EU, and the effects this could make on the whole enlargement process.

Only three Chapters of the *acquis communautaire* have not yet been concluded with a single candidate country (CAP, structural policy and the budget). They all deal with sensible financial aspects of the enlargement. This is a good indicator of possible hurdles for completing the enlargement. These three areas were the main issues in Agenda 2000, but as we have seen the long-term solution for these issues have not yet been found. Solutions given by the Agenda 2000 represent only an interim deal that could not accommodate the enlargement.

In Agenda 2000, the Commission proposed only gradual integration of the CEECs in the CAP system, with a lengthy transitional period after the

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acquisition, before they become fully eligible for EU subsidies. EU is especially reluctant to give direct income subsidies to the farmers in CEECs, insisting that they will already have benefits from higher EU prices they will be paid for their products and that they did not need to be compensated for the loss of price subsidies they had never received.

On the other hand, candidate countries insist that they should be automatically integrated in to the CAP system after the accession to EU and that farmers from new member states should benefit from direct income payments from Brussels like all the other EU farmers. Particularly, these negotiations are sensible in the case of Poland with its large agricultural sector that accounts for nearly 27% of employment.72

As an answer to these reactions by the CEECs, in February 2000, the Commission has made a proposal of extending some direct aid payments to CEECs’ farmers after the accession.73 The Commission also proposed that CEECs’ farmers could receive aid after the accession, but only on gradual basis, through a period of seven years after which they would receive full amount of assistance. This would mean that if a first accession takes place in 2004 only after 2012 farmers would receive full assistance from the CAP. At the same time the Commission explained that the new budget increase would not be needed to compensate for these payments because money would be saved from the funds devoted for after-accession aid after 2002, that will not be spend because first accession will not take place before 2004. Even though this proposal did not answer the requirements of the CEECs, it does present a step away from the original stand of no direct payments and as much as time goes by it looks that it is going to be the solution of the problem.

The similar problem arises in the second, most expensive EU policy area, regional policy. With the GDP per capita fluctuating from one-third to two thirds of EU average GDP, all CEECs would be eligible to receive assistance from structural funds. As we have seen before, the net contributors to the EU budget (Germany, Netherlands and UK) are not willing to tolerate any new increase in the EU budget. That budgetary increase would be unavoidable in order to accompany enlargement and, at the same time, to preserve the way of distributing support among current members. With net budgetary contributors unwilling to pay for the increase, the EU has to continue with the current budgetary ceiling set on 1.27% of EU GDP. In fact, the Commission budget proposal for the period 2000-2006 amounts to only 1.22%.74 This means that if new member states would have access to the structural funds immediately after the accession, present members receiving the aid would be left out

72 European Commission, Agenda 2000, p. 113.
74 European Commission, Agenda 2000, pp. 61-69.
of the scope of regional policy. By this fact member states, especially Spain and Portugal, the biggest beneficiaries, are strongly motivated to stop the enlargement or to postpone it as long as possible because it would not be in their interest. During negotiations for Agenda 2000, these countries clearly emphasized that they are not ready to pay the price of the enlargement by giving up structural aid and that it would not be fair for the poorest to pay the price while the richest are reluctant to do that. Another argument these countries, and generally all southern members, are pointing out is that Germany would be the biggest beneficiary from the enlargement because the markets of the new members would be open for German products and would be dominated by them, while peripheral members will only bear the costs of the enlargement. According to this argument, those who are benefiting from the enlargement should be the ones that should pay the price for it. This is the reason why these countries argued so strongly in favor of the lifting of the ceiling from the current 1.27% level and this is why the Agenda 2000 did not bring a satisfactory solution to this problem. As it is the case with the CAP, in the case of structural policy a new deal will have to be made in order to accompany approval of the beneficiaries of the structural policy for the enlargement. The only other solution is to exclude new members from the structural policy area or make a gradual accession regime.

Leaving new member states out of the CAP and structural policy would be a choice too severe for these countries. Having in mind that these countries (except Slovenia and Czech Republic) are poorer than the poorest present EU member, Greece, leaving them out of these two systems of redistribution would make them net contributors to the EU budget, putting them on the same level with Netherlands and Germany which are the richest members of the EU.

Currently, discussions on this matter in Brussels are in the area of searching the way to accommodate needs of both, new and old members, by establishing different criterions for receiving the aid. For example, the threshold for new members would be 75% of EU average GDP and for present members it would be 110% of EU GDP measured after the accession of candidate countries in 2004.

At the end, we can conclude that we can only wait and see what will really happen and how EU will accommodate enlargement in these policy areas. We suppose that the final agreement could be found in the Summit of Heads of State or of Government in Copenhagen in December 2002. One thing is sure even after enlargement takes place: regional policy will be one of the main EU policies and will continue to be the main indicator of how far has the process of deepening of the European integration gone, as it has been the case so far.

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REGIONALNA POLITIKA U EVROPSKOJ UNIJI

REZIME

Ekonomski i socijalni dispariteti unutar Evropske unije su očigledni i vrlo značajni. Glavno mesto zauzimaju strukturni problemi, a među njima su najznačajniji regionalni dispariteti, tj. različiti nivoi ekonomskog razvoja među regionima Unije. Autor analizira nastojanja EU da ove disparitete ublaži, odnosno smanji regionalne razlike putem regionalne politike.


Autor analizira i šta je do sada postignuto u nameri da se smanje regionalne razlike među regionima Unije. Razmatrani su primjeri Španije i Grčke koje su smanjile razliku za prosekom EU za 9-10 procentnih poena, i Portugala koji je taj jaz smanjio za 17 procentnih poena. Poseban je slučaj Republike Irsko je, koja je 1988. godine bila u zaostatku sa 63.8% proseka EU da bi 2000. godine dostigla nivo od 118.9% proseka EU. Za razliku od nekih analitičara koji smatraju da je ovo smanjenje jaza najvećim delom rezultat regionalne politike EU, drugi dovode u sumnju da je došlo do bilo kakve konverzije, negirajući u isto vreme bilo kakav uticaj regionalne politike na ceno proces. Autor ovog članka zaključuje da uticaj regionalne politike na razvoj jedne zemlje ne treba precenjivati, ali u isto vreme ni potcenjivati, da je veoma teško izračunati uticaj regionalne politike izolovano od drugih faktora koji utiču na ekonomski rast, ali i da bi bez postojanja komunitarne regionalne politike taj rast bio manji.

U poslednjem delu članka analiziran je uticaj koji proširenje Unije na Istok može da ima na regionalnu politiku, zbog čega i na koji način će regionalna politika biti promenjena da bi istočno proširenje bilo prihvatljivo kako za Uniju tako i za nove članice. Glavni problem sa kojim se Unija suočava u vezi s proširenjem je loše stanje u kome se nalaze ekonomije zemalja kandidata i njihov veliki broj. Završavajući svoje istraživanje autor ukazuje na neke moguće pravce reforme regionalne politike, zaključujući da bez obzira kako će izgledati u budućnosti, regionalna politika će ostati pokazatelj dokle je došao proces produbljivanja evropske integracije.