EUROPEAN EXPENDITURE

Part II

Interdepartmental policy study
European expenditure
Part 1: other expenditure and
general aspects

Budget preparation 1996 – Report nr. 1

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Part II

INTERDEPARTMENTAL POLICY STUDY

EUROPEAN EXPENDITURE

PART II: OTHER EXPENDITURE AND GENERAL ASPECTS

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Contents

0. Executive summary

Terms of reference

The policy study of European expenditure was carried out to determine how the net position of the Netherlands could be improved and the gross payments by the Netherlands reduced by modifying the policy and financing system of the EU. The study takes explicit account of the problems connected with the accession of the countries of Central and Eastern Europe. This part - Part II - deals with the financing system of the European Union, a generic system of net limiters and the structural funds.

Net position under the EU budget

The net payments by the Netherlands to the EU are expected to increase from 3.7 billion guilders in 1995 to 6.1 billion guilders in 1999. In the latter year the Netherlands will receive back less than half of what it pays to the Union. The main causes of the deterioration in the net position of the Netherlands are its large share of payments to the EU, its falling share of EU expenditure on agriculture and its low share of receipts from the structural funds. The size of the payments to the EU is due to the large share of the Netherlands in the payment of customs duties, as well as the financing of the rebate paid to the UK. The Netherlands will once again receive the least in per capita terms of all the Member States from the structural funds in the period 1994-1999. Reference should be made to Part I of this study for an explanation of why the Dutch share of the agricultural expenditure of the EU is declining.

Enlargement of the EU

Accession of the Visegrad countries to the EU in 1999 or thereabouts is expected to entail additional expenditure of 38-46 billion ECU (an increase in the EU budget of 37-47%), 27 billion of which will involve expenditure under the structural funds. Accession of all the countries of Central and Eastern Europe would result in extra expenditure of 63-82 billion ECU (an increase in the EU budget of 60-80%), 44 billion of which would involve expenditure under the structural funds. Most of the burden of financing this additional expenditure would be borne by the present Member States.

Own resources

The importance of the traditional own resources, i.e. customs duties and agricultural levies, is gradually diminishing owing to the pressure of the agreements made in the GATT/WTO rounds and to the reform of the CAP. The amount of these resources is expected to remain stable in nominal terms up to and including 1999. As a result of the decisions taken by the European Council in Edinburgh on capping and the reduction of the maximum payment percentage, the importance of the VAT own resources payments is also declining. This factor, combined with the increase in the size of the EU budget to a maximum of 1.27% of GNP in 1999, means that the importance of the GNP financial contributions is rising sharply. The moves to have the financing of the EU budget increasingly based on GNP shares benefits the Netherlands since its share in the financing based on the other resources is higher.

Abolition of the traditional own resources

The consequences of abolishing the traditional own resources would in general be markedly greater than the consequences of abolishing VAT own resources payments. However, abolition of the traditional own resources, of which the Netherlands has a very large share, would seem hardly feasible politically. Abolition would be a drastic process, not only materially but also psychologically, owing to the close connection of these resources with the internal market and the common external tariffs.

Abolition of VAT-based payments

Following the decision of the European Council in Edinburgh to reduce the importance of these resources, complete abolition of VAT-based payments would require only a relatively small step. In this way, the payments would reflect more closely the relative standards of prosperity and would increase the simplicity and transparency of the financing system of the EU. In budgetary terms, the Netherlands would benefit to a slight extent.

Fifth category of own resources

It is unlikely that a good basis could be found for a fifth category of own resources during the negotiations in 1999 on a new Own Resources Decision. Furthermore, budgetary discipline would seem to be better served by the present system in which the Member States have a direct stake.

A net limiter

The most important reason for introducing a generic system of net limiters is that large net payments to the EU may erode the support for the EU in one or more Member States. Such erosion would undermine the overall support for the EU, thereby jeopardising integration. The introduction and administration of a generic system of net limiters is technically feasible. The large net contributors, present and potential, have a clear common interest in establishing such a system. The necessity, the political pressure and perhaps too the opportunities for introducing a net limiter would arise above all if the CAP and the structural policies were to be insufficiently reformed. The future accession of the countries of Central and Eastern Europe is bound to make a generic system of net limiters even more important.

Reform of the structural funds

Around half of the resources of the structural funds consist of cross-subsidies between the Member States that are the most prosperous in relative terms. The priorities of regional policy - both geographical and thematic - can be fixed more effectively at national level. Only where it is desirable to arrange the transfer of resources though the EU, for example for the policy on cohesion, is it better to determine the policy priorities and allocation of resources at the EU level. This alone is a sufficient reason for a fundamental reform of the structural policies. But such a reform is also necessary to make possible the accession of the countries of Central and Eastern Europe. In the absence of reform, this accession would cause a substantial increase in the budgetary funds for the structural policy and hence a large rise in the payments made by the Netherlands and the other Member States to the EU.

To prevent the cross-subsidies between the more affluent Member States and enable policy priorities to be determined effectively, the relatively rich Member States should be excluded from participation in the structural funds of the EU. Only Member States whose national prosperity is below a certain limit (i.e. the cohesion countries) would then be eligible for assistance from the structural funds. The allocation of resources to the cohesion countries should be made by reference to an objective, economic criterion involving a maximum per capita amount; the more prosperous the country is in relative terms, the less it should receive.

The Netherlands would greatly benefit from the reform of the cohesion and structural policies described above. First of all, there is the budgetary benefit. The Netherlands would no longer need to contribute to the financing of the structural policies in other, more prosperous Member States. Second, the "renationalisation" described here would enable the authorities in the Netherlands to set their own priorities for the regional assistance policy. Not only the "old" EU resources but also the obligatory co-financing could then be allocated on the basis of national criteria. Where the national priorities coincide with the EU priorities the policy could be continued, and where this is not the case a decision could be taken at national level to reallocate the resources. Such a decision would have to be taken for example in the case of the "horizontal themes" such as combating unemployment. Naturally, the scope for national decisions on regional policy would be limited by the provisions of the EC Treaty, for example the competition rules.

Treaty amendment

If the structural funds were to be reformed in the manner described above, this would leave the cohesion funds and the first objective of the structural funds. If the different funds were to be maintained, a Treaty amendment would not seem at this stage to be necessary. The Regulations could in principle be supplemented by a rule that only regions situated in a Member State with a per capita income below a certain limit are eligible for EU subsidies from the structural funds. It is debatable whether this would be sufficient since although the addition of a national prosperity criterion may not infringe the letter of the Treaty, it does infringe its spirit.

Management and control

Finally, there is mounting criticism of the inefficiency, ineffectiveness and susceptibility to fraud of a number of parts of EU policy. This criticism applies in particular to the Common Agricultural Policy and the structural policies. Quite apart from the necessary reforms, sufficient priority should therefore be given to ensuring that funds are disbursed effectively and efficiently and that policy is not open to abuse.

1. Introduction

On 14 February 1995 the Minister of Finance sent a memorandum on the net position of the Netherlands under the EC budget to the Lower House of Parliament.[1] The memorandum showed that the Netherlands, which had traditionally been a net recipient of funds from the EU, was expected to become the largest net contributor in relative terms to the EU in 1995; it also indicated that this position was expected to deteriorate further in the next few years. The change has been brought about because the nature of the present policy expenditure of the EU means that the already small Dutch share of EU expenditure will decline still further, and also because the payments of the Netherlands to the EU will continue to rise.

There is also the budgetary problem caused by the future accession to the EU of the associated countries in Central and Eastern Europe. If policy remains unchanged, this accession will lead to a sharp, organic growth of the EC budget, almost all of which will have to be funded by means of extra payments by the 15 current Member States. In view of the present policy of the Union, this will either lead to a further worsening of the Netherlands' net budget position or effectively preclude the future accession of these associated countries.

The aim of the present policy study is to examine what opportunities the Netherlands has to limit the gross payments which it makes to the Union and also to improve its net position under the EC budget by means of adjustments to both the financing system and the policy of the Union. Another subject explicitly dealt with in this study is how the financial consequences of the accession of the associated countries in Central and Eastern Europe can be scaled back to acceptable proportions.

In Part I, the study relates to the scope for reforming EU agricultural policy. This part II of the study examines the scope for reforming the financing system of the Union and the scope for altering other EU policies. The study focusses on reform of the financing system and reform of EU policy in the longer term. The present Financial Perspectives have been fixed up to and including 1999. The accession of the countries of Central and Eastern Europe also relate to the period after 1999. It follows that there is no possibility of fundamental policy changes in the period up to and including 1999. The first reference point chosen for the present study is the level of EU policy spending expected in 1999. And the second reference point is the size of the

[1] See: Parliamentary Papers II 1994/95, 24 099, no. 1.

expected Dutch payments to and receipts from the EU and hence the net position of the Netherlands under the EU budget in 1999.

Chapter 2 gives a description of the existing financing system and present policies of the EU, as well as the consequences for the Netherlands. In chapter 3 the question is adressed which variables should be taken into account quantitavely or qualitatively in calculating and interpreting the scenarios. One major external variable is naturally the future accession of the Central and Eastern European Countries to the Union. Chapter 4 examines, by means of some scenarios, what opportunities the Netherlands has to attain a more balanced outcome of the financial process of the EU by means of adjustments to both the financing system and the policies of the Union. The study ends with some conclusions in chapter 5.

2. The finances of the European Union until end-1999

2.1. General

The broad outline of the EC financial arrangements is set out in Part Three, Title II, of the Treaty. The main provisions are article 199, which lays down that the revenue and expenditure shown in the budget must be in balance, and article 201, which lays down that the budget must be financed from the Community's own resources and that a decision on the amount and the system of own resources should be ratified by national parliaments after unanimous decisions have been taken in the Council and after the European Parliament (EP) has been consulted. This means that the EC expenditure is limited by the own resources ceiling (OR ceiling) specified in the Own Resources Decision (OR Decision).

2.2. The income of the EU

2.2.1. The own resources ceiling

The EC has had an OR Decision since 1970. The 1988 OR Decision, which is still applicable, provides that the total of own resources of the EC in payment appropriations may not exceed 1.20% of the EU's GNP.[2] During the European Council in Edinburgh (December 1992), it was agreed as part of the Delors II package that the OR ceiling should gradually rise to 1.27% of the EU's GNP in 1999. This new OR ceiling will come into force when the new OR Decision has been ratified by all national parliaments. Since the OR ceiling is tied to the EU's GNP, both economic growth and inflation result in a higher OR ceiling in nominal terms.

2.2.2. The own resources system

The EU's own resources consist of four components. Table 2.1 shows the expected composition of the own resources in 1995 and 1999.

The traditional resources (customs duties and agricultural levies)

The importance of the customs duties and agricultural levies, which are also known as the traditional own resources, is diminishing owing to the pressure of the agreements made in the

[2] Payment appropriations indicate what payments the EC may make and commitment appropriations what commitments the EC may enter into in a given year.

(in billions of ECU)	1995		1999	
Agricultural levies	2.0	(2.6%)	1.9	(1.9%)
Customs duties	12.9	(17.0%)	12.9	(13.1%)
CAT own resources	39.4	(51.8%)	37.2	(37.7%)
GNP own resources	21.7	(28.6%)	46.8	(47.3%)
Total	76.0	(100.0%)	98.8	(100.0%)

Table 2.1. The expected composition of the own resources in 1995 and 1999 based on the EU budget 1995 and the Financial Perspectives (in current prices).
Source: European Commission, Ministry of Finance.

GATT/WTO rounds and to the reform of the Common Agricultural Policy (CAP). In the budgetary procedure, the EU Council (the EP has no control over the own resources) has no way of influencing the level of the tariffs and hence the ultimate revenues. The amount of these resources is expected to remain stable in nominal terms up to and including 1999.

VAT own resources

Under the OR Decision, the VAT own resources payments are subject to a maximum percentage. This maximum, which is expressed as a percentage of the uniform VAT base, is demanded in full. Until the end of 1994 the maximum was 1.4% of the VAT base. Under the Delors II package, it was agreed that this should be gradually reduced to 1.0% by 1999. In addition, it had already been agreed in 1988 that the size of the VAT base should be limited to a percentage of GNP. This is known as capping. The VAT base has been limited to 55% of GNP for all Member States until 1995. This limit will be reduced in a single step to 50% for the cohesion countries (Spain, Portugal, Ireland and Greece) from the entry into force of the new OR Decision. The rate is to be reduced in equal steps to 50% for the other countries by 1999. If the VAT bases are extrapolated to 1999, it seems likely that only the VAT own resources payments of Germany, Greece, Ireland, Luxembourg and Portugal will be capped. As far as VAT own resources are concerned, the actual payments of these Member States will therefore be calculated by reference to their GNP base.

Financial contributions (GNP)

This is the item that balances the budget. All expenditure increases in the EU are therefore funded by means of the financial contributions (GNP). The percentage to be demanded is determined annually by deducting the revenues of the three other own resources from the amount of the planned expenditure of the EU. The Member States then pay a contribution based on their share of the EU's GNP.

The UK compensation

There is one major exception to the system of own resources: the UK compensation. Yearly the UK is entitled to a rebate on its contribution in the amount of about 2/3 of its net contribution (which amounts to a rebate of about 3 billion ECU per year). The UK compensation is paid for by the other Member States. However, Germany only has to pay 2/3 of its regular share in the financing of the UK compensation. The financing of the UK compensation is accounted to the Member States on the basis of their GNP share, but is added to the VAT contributions. The Dutch share in the UK compensation is about 400 million guilders per year.

2.3. The expenses of the EU

2.3.1. The Financial Perspectives

The EU has no detailed multiannual figures for expenditure but does use a multiannual global financial framework. These are the socalled Financial Perspectives (FP). The FP in force concern the period 1993-1999 and are part of the Interinstitutional Agreement between the European Parliament, the European Commission and the Council. However, in fact it is the Council which decides on the FP.[3] The FP present an expenditure ceiling (no expenditure target), in commitment apropriations and prices of the base year, for 7 expenditure categories per year. Annually the FP are adjusted for inflation.[4] The total of the FP per year is also expressed in payment appropriations and as a percentage of the EU's GNP. These payment appropriations should fit within the own resources ceiling. Furthermore, there is a margin for unforseen expenditure. The present, updated FP in current prices are presented in table 2.2.

[3] The FP are agreed upon by the Council by unanimity. Adaptions to the FP within the margin 0,01% of GNP for unforseen expenditure are decided by qualified majority. Adaptions of the FP exceeding this margin for unforseen expenditure have to be agreed upon with unanimity.

[4] During the negotiations on the present FP a real growth rate of 2.5% per year was assumed. Only the agricultural guideline is adjusted annually for expected real economic growth.

(in billions of ECU)	1995	1996	1997	1998	1999
Agricultural guideline	**38.0**	**40.8**	**42.9**	**44.9**	**47.1**
Structural policy	**26.3**	**29.1**	**31.7**	**33.7**	**36.7**
- *Structural funds*	*24.1*	*26.6*	*28.8*	*30.7*	*33.6*
- *Cohesion fund*	*2.2*	*2.4*	*2.8*	*2.9*	*3.1*
- *EER mechanism*	*0.1*	*0.1*	*0.1*	*0.1*	-
Internal policy	**5.1**	**5.3**	**5.7**	**6.1**	**6.6**
External policy	**4.9**	**5.3**	**5.7**	**6.3**	**7.1**
Administrative expenditure	**4.0**	**4.2**	**4.4**	**4.6**	**4.9**
Reserves	**1.1**	**1.2**	**1.2**	**1.2**	**1.2**
Compensations	**1.5**	**0.7**	**0.2**	**0.1**	-
Total appropriations	**80.9**	**86.6**	**91.9**	**97.0**	**103.5**
Total payments	**77.2**	**82.2**	**87.6**	**93.0**	**98.8**
Payments (% GNP)	1.20	1.20	1.21	1.22	1.23
Margin (% GNP)	0.01	0.02	0.03	0.04	0.04
OR ceiling (% GNP)	1.21	1.22	1.24	1.26	1.27

Table 2.2. The Financial Perspectives for the periode 1995-1999 (in billions of ECU, in current prices, inflation assumption 3% per annum).
Source: European Commission, Ministry of Finance.

2.3.2. Agricultural expenditure

The total of agricultural expenditure is limited by a maximum, the agricultural guideline. This guideline is calculated annually by raising the base[5], taking into account special expenditure (sugar expenditure and receipts producer levies), with part of the expected real growth rate. The agricultural guideline is the only part of the FP which is not only adjusted for inflation, but also partly for GNP growth.[6] All FEOGA Guarantee expenditure including companying measures are to be financed within the guideline. The monetary reserve and agricultural expenditure out of the Structural Funds (FEOGA orientation) are financed outside the guideline. The monetary reserve can be used for extra agricultural expenditure resulting from changes in the dollar-ECU parity and for expenditure resulting from EMS revaluations which cannot be financed within the guideline. Agricultural expenditure is more extensively dealt with in part I of this policy study.

[5] The reference expenditure in 1988 of 27.5 billion ECU.

[6] Full inflation correction through the GNP deflator and 74% of the EU's GNP growth between 1988 and the present year.

2.3.3. The structural funds and the cohesion fund

General

The structural funds and the cohesion fund aim to strengthen economic and social cohesion within the Community. In the periode 1989-1993 the Community spent about 64 billion ECU (prices 1989) on the structural funds, of which about half came to the benefit of the four cohesion countries. The budgetary enveloppes for the period 1994-1999 have been fixed at 141 billion ECU for the structural funds and more than 15 billion ECU for the cohesion fund (both in prices 1992). Further it is important to keep in mind that structural expenditure is priviliged, meaning that the available resources for this purpose really need to be spent (as laid down in the Interinstitutional Agreement).

Cohesion fund

The cohesion fund is in force up to and including 1999; in that year it will be discussed if continuation of the fund is wanted or necessary. Member States with a GNP per capita of less than 90% of the EU average are eligible for support from the fund. Only Spain, Portugal, Ireland and Greece satisfy this criterium[7]. Furthermore, the use of the financial means from the fund is restricted to improving transport infrastructure (about 60%) and environmental projects (about 40%). The maximum Community financing percentage is 85% for projects and 100% for studies. The most likely distribution of the cohesion fund in the period 1994-1999 is presented in table 2.3.

Structural funds

Almost all the structural fund means have already been allocated. In table 2.3. the allocation of these means to the Member States has been extrapolated to the small part of the structural funds that has not been allocated yet.[8]

[7] In this respect a global distribution key has been fixed: 52-58% for Spain; 16-20% for both Portugal and Greece; 7-10% for Ireland.

[8] The figure for the Netherlands presented in the table differs from the promise by the Commission of 2700 million ECU for two reasons. In the first place the estimates are in prices 1994, while the promise was in prices 1992. In the second place the Dutch receipts in 1993 (230 million ECU in prices 1992) have to be added to the figure.

(in millions of ECU)	structural funds receipts	cohesion fund receipts	total
Belgium	2106	-	2106
Denmark	856	-	856
Germany	21870	-	21870
Greece	15416	2891	18307
Spain	34994	8832	43826
France	15171	-	15171
Ireland	6167	1445	7612
Italy	22017	-	22017
Luxembourg	102	-	102
Netherlands	2618	-	2618
Portugal	15722	2891	18613
UK	13385	-	13385
Austria	1833	-	1833
sweden	1608	-	1608
Finland	1929	-	1929
EU-15	155794	16059	171853

Table 2.3. Estimates of the receipts of the Member States from the structural funds in the period 1994-1999 (in millions of ECU, in prices 1994).
Source: European Commission, Ministry of Finance.

The structural fund means are spend through the four Community structural funds ERDF, ESF, EAGGF-Guidance and FIOV.[9] Furthermore, five objectives have been formulated.[10] Formally the Commission has no competence for allocating the financial means to the Member States. However, in practice negotiations are conducted with the Member States. Besides that, there is

[9] ERDF : European Regional Development Fund.
ESF : European Social Fund.
EAGGF-G: European Agriculture Guidance and Guarantee Fund - Guidance section.
FIFG : Financial Instrument for Fisheries Guidance.

[10] These are:
- objective 1: promote the development and structural change of regions with a development leeway; criterium is a GDP per capita that is less than 75% of the EU average;
- objective 2: transformation in regions which are heavily affected by industrial decay; specific criteria related to decay;
- objective 3: fight long term unemployment, re-employment of young persons and prevention of job market exclusion; horizontal;
- objective 4: adaption of employees to different circumstances and development of production systems;horizontal;
- objective 5a: adaption of agricultural structures to the CAP reform and restructuring of the fisheries sector; horizontal;
- objective 5b: development and structural transformation of the countryside; criteria related to transformation problems.

For the sake of completeness, it is mentioned that a sixth objective has been formulated for Sweden and Finland, aimed at the Arctic regions.

an indicative distribution of the budgetary envelope over the various objectives.[11] Because the entire territories of Greece, Portugal and Ireland and a large part of Spain have been deemed to be objective 1 area, these Member States receive a lot from the structural funds besides what they receive from the cohesion fund. The socalled Community Initiatives present the Commission with the possibility to reserve certain means for measures they find especially important for the EU, as there is cross-border cooperation.

2.3.4. Internal policy

Within the internal policy category there are a few important multiannual agreements. These are the programmes for Research and Development, Transeuropean networks (TENs) and the Portugese textiles industry.

(in billions of ECU)	1995	1996	1997	1998	1999
FP internal policy	5.1	5.3	5.7	6.1	6.6
Research and development	3.0	3.2	3.5	3.5	3.6
Transeuropean networks	0.3	0.4	0.5	0.6	0.7
Textiles industry Portugal	0.1	0.1	0.1	0.1	0.1
Other internal policy	1.7	1.6	1.7	1.9	2.2

Table 2.4. Category internal policy (in billions of ECU, in current prices, inflation assumption 3% per annum). Source: European Commission, Ministry of Finance.

Table 2.4. makes clear that these programmes will show strong growth in the next few years. Therefore, the other chapters within the internal policy cateogry not or almost not be able to grow. Important chapters in this category are, besides the above mentioned programmes, cooperation in matters of justice and home affairs, industry policy, internal market policy, environmental policy and energy policy.

2.3.5. External policy

The Cannes European Council (June 1995) decided upon multiannual frameworks for aid to the countries of Central and Eastern Europe (PHARE) and the Mediterranean region (MEDA).

[11] 63% for objective 1 regions; 10% for objective 2; 9% for objective 3/4; about 4% for both objective 5a and objective 5b; 9% for the Community Initiatives.

After this, the global multiannual picture of the category external policies is as presented in Table 2.5. Obviously, PHARE, TACIS (aid to the republics of the former Soviet Union) and MEDA are the most important programmes in this category. Other important parts are the Common Foreign and Security Policy, humanitarian aid and food aid and cooperation with Asia and Latin America. The European Development Fund (EDF), the financial arm of the Lomé Treaty, is financed outside the EC budget. The EDF is only accounted for in the budget by a P.M.[12]

(in billions of ECU)	1995	1996	1997	1998	1999
FP external policy	4.9	5.3	5.7	6.3	7.1
PHARE	1.2	1.2	1.3	1.4	1.6
TACIS	0.5	0.5	0.5	0.6	0.6
MEDA	0.6	0.9	1.0	1.1	1.1
other external policy	2.7	2.8	2.9	3.1	3.8

Table 2.5. Overview category external policy up to and including 1999 (in billions of ECU, in current prices, inflation assumprion 3% per annum).
Source: European Commission, Ministry of Finance.

2.3.6. Administrative expenditure and reserves

The category administrative expenditure includes the salaries for the members, personell and the costs of the institutions, buildings, equipment, household management and information management.

The category reserves contains the already mentioned monetary reserve, the reserve for emergency aid operations and the loan guarantee reserve for the coverage of loans guaranteed by the Community.

Up to and including 1998 additional expenditure (category compensations) will be made possbile for the EFTA counties that became EU members, as they will not be able to profit to the full from EU policies while experiencing certain financial disadvantages because of their accession.

12 The Cannes European Council did decide however to reinforce the budget for humanitarian aid to ACP countries with 160 million ECU; this amount will be added to the EDF VIII.

Furthermore, this category covers financial obligations the Union took over from the EFTA countries, stemming from the participation of these countries in the European Economic Area.

2.4. The net position of the Netherlands under the EU budget

Figure 2.1 shows how the net position of the Netherlands has changed in the period 1988-1993 and gives estimates for 1994-1999.[13]

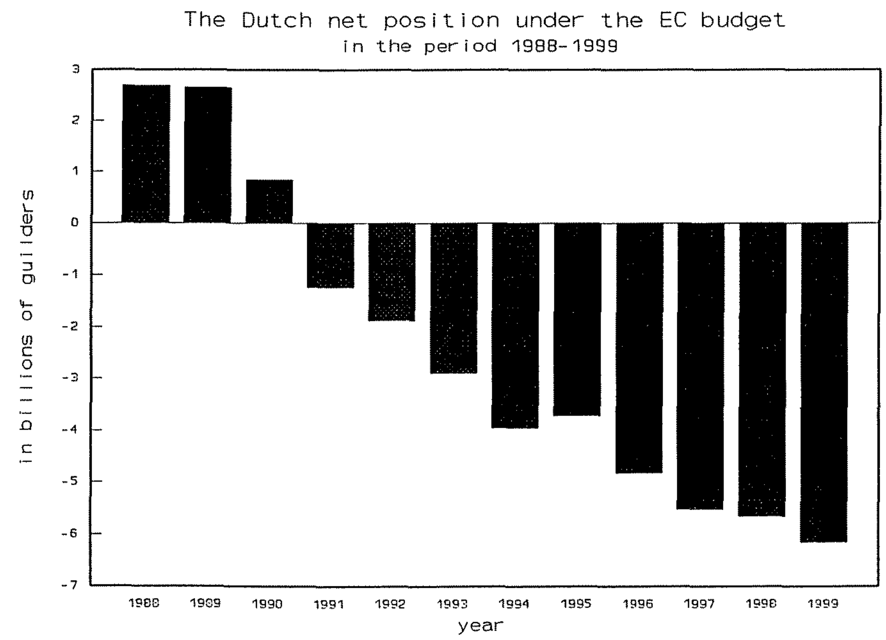

Figure 2.1.
Source: 1988-1993 Annual reports of the European Court of Auditors
1994-1999 Ministry of Finance

It should be noted in this connection that differences may occur from year to year. For example, a non-recurrent windfall of approximately 600 million guilders occurred in the payments in 1995 owing to a postponement of expenditure under the structural funds until later years and to underutilisation of the agricultural budget.

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[13] See also the letter of the Minister of Finance to the Lower House of Parliament dated 14 February 1995, concerning the sums paid to and received from the EU budget by the Netherlands (Parliamentary Papers II 1994/95, 24 099, no. 1). The estimates presented here for 1994-1999 are based on the most recent information and may therefore differ from the figures mentioned in the letter. For example, the figures for payments to the EU have been taken from the 1996 Budget Memorandum.

The change in the net position of the Netherlands coincided with the acceptance of the Delors I package of measures for the EC finances in 1988. Since 1989 there has been a constant, structural deterioration in the net position of the Netherlands year by year, as a result of which the Netherlands dropped through the break-even point very quickly and became a net contributor to the Union to an extent that is increasing annually.[14] Implementation of the Delors II package and the reform of the CAP have reinforced the existing trend.

In 1995 the Netherlands is expected to receive back from the Union just over half of its payments, which have now risen to 9 billion guilders. This amounts to a net contribution of just under 4 billion guilders.[15] Since the net contribution of the Netherlands is expected to continue to grow in absolute terms, it is likely that the Netherlands will be a net contributor to the tune of some 6 billion guilders in 1999.

The main causes of the deterioration in the net position of the Netherlands are its large share of payments to the EU, its falling share of EU expenditure on agriculture and its low share of receipts from the structural funds. In fact, as part of the other expenditure cannot be imputed to any of the Member States, this in itself produces a small net payment. The size of the payments to the EU is due to the large share of the Netherlands in the customs duties payments, as well as to the financing of the rebate paid to the UK. The chief reason for the decline of the Dutch share of EU expenditure on agriculture is the reform of the CAP. Under the reformed CAP, the assistance is concentrated on sectors in which the Netherlands has only a very small share of the production. The Netherlands will receive the least in per capita terms of all the Member States from the structural funds in the period 1994-1999 too. The Netherlands receives back about quarter of each ECU which it pays to the structural funds, the remaining three quarters going to other Member States. Table 2.6 gives the estimates of the net position of the Netherlands under parts of the EU budget for 1995 and 1999.

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[14] The graph gives an unduly favourable picture for 1988-1989 in particular as part of the export refunds paid in that period on account of the exchange rate at that time is attributed to the Netherlands whereas it in fact benefited other Member States.

[15] There was a non-recurrent windfall of approximately 600 million guilders in terms of payments in 1995. This was because lower expenditure under the structural funds in 1994 produced a credit balance of some 4.5 billion guilders, which was then deducted from expenditure in 1995, and because the agricultural budget was underutilised in 1995. As a result of this windfall, the net position of the Netherlands in 1995 was better, albeit only for that year. This explains why the updated net position for 1995 is less bad for the Netherlands than that shown in the Memorandum on the net position of the Netherlands under the EU budget.

1995

(in billions of guilders)	payments	receipts	net position
CAP	4.8	3.9	-0.9
Structural funds	3.3	0.9	-2.4
Other expenditure	0.9	0.5	-0.4
Total	9.0	5.3	-3.7

1999

(in billions of guilders)	payments	receipts	net position
CAP	5.6	3.7	-1.9
Structural funds	4.4	1.3	-3.1
Other expenditure	1.7	0.6	-1.1
Total	11.7	5.6	-6.1

Table 2.6. The Dutch net position under the different parts of the EC budget in 1995 and 1999 (in billions of guilders, in current prices; - = net contributor).
Source: European Commission, Ministry of Finance.

3. Developments in the run-up to 1999

3.1. Introduction

It is necessary to determine at the outset whether the present EU budget and the financing system on which it is based as described in the previous section can be automatically taken as the starting point of the policy study. The question arises of what external variables are likely to affect the position of the Netherlands in Brussels in the period leading up to the introduction of the new, Santer I financial package. These variables affect the Dutch policy input in Brussels until 1999 and are relevant to the discussion of the new financial package. If it is assumed that present maximum under the OR decision will remain unchanged, the OR ceiling (which is the maximum for EU expenditure) will change as shown in table 3.1.

(in billions of ecu)	1999	2004	2009
payments (current prices)	98.8	129.0	168.6
payments (prices 1999)	98.8	111.7	126.3

Table 3.1. Development EU expenditure with an unchanged own resources ceiling of 1.27 % of EU GNP (inflation assumption 3 % per annum, growth assumption 2,5% per annum).
Source: Ministry of Finance.

A number of developments in the run-up to 1999 which are relevant to this policy study are outlined below. To ensure clarity, the only external variables taken into account in the scenarios described in the next section are those that are quantifiable and also have a substantial budgetary impact.

3.2. Enlargement of the EU

The European Council of Copenhagen (June 1993) decided that any of the associated Central and Eastern European Countries (CEEC) who so wished could join the EU as soon they were able to meet the membership criteria. It was also a condition that the EU should have put its own house in order.

In all probability, only the four Visegrad countries (Poland, Hungary, the Czech Republic and Slovakia), together with Cyprus and Malta, will be able to meet the burdens of EU membership by the year 2000. Earlier accession would certainly be impossible because the European Council of Corfu decided that no accession negotiations should be started before the end of the IGC '96. EU membership is an even more distant prospect for the other (potential) association partners (i.e. Rumania, Bulgaria, the Baltic States and Slovenia), in view of their present state of development. The scenarios described in the next section therefore take account only of the accession of the Visegrad countries (Cyprus and Malta are negligible in budgetary terms). It goes without saying that limiting the scenarios to the Visegrad countries has a major impact on the total additional budgetary expenditure. This is shown in table 3.2.

(in 1999, in billions of ECU)

	costs Visegrad	costs all CEEC	budget EU-15
CAP	7-17	13-32	47
Structural funds	27	44	37
Other expenditure	4	6	19
Total	38-48	63-82	103

Table 3.2. Addtitional costs accession Visegrad countries and costs accession all CEEC compared to size EC budget in 1999 (in current prices).
Source: Ministry of Finance, LEI-DLO.

Other factors that are of course important, besides the number of new members, is what arrangements are made in the run-up to membership and what form membership will take . A possible option would be accession in the foreseeable future with long transitional periods. Other options are a multiple-speed Europe, a Europe of core groups and a Europe of variable geometry. Needless to say, the internal variables, i.e. reform of the CAP and the structural funds, are of crucial importance to the way in which the Visegrad countries can join the EU.

3.3. Development of the second and third pillars

A factor which could have a major influence on the future size of the EU budget is the course of the cooperation in the second and third pillars of the EU Treaty, i.e. the common foreign and security policy and cooperation in matters of justice and home affairs. If there were to be real cooperation in these areas, it might be necessary to make substantial additional budgetary resources available. In the case of the common foreign and security policy (CFSP), the main item of expenditure would be joint actions. Furthermore the possibility of a common defence policy, either as part of the CFSP pillar or otherwise, cannot be excluded. This too could entail substantial costs. As far as justice and home affairs are concerned, increasing cooperation seems likely in respect of asylum seekers and between police forces. It should, however, be remembered that, unlike the position in most policy areas of the EU, expenditure on these forms of cooperation would largely replace Dutch national expenditure. Nonetheless, there is at present no definite prospect of more intense cooperation in the areas of foreign and security policy and justice and home affairs. It follows that it is not possible to quantify the budgetary consequences of such cooperation.

3.4. External policy

The Community's conventional external policy usually has a financial dimension. There are fewer and fewer regions with which the EU has no contractual ties. At present, external policy accounts for approximately 6% of the total EU budget. Expenditure on external policy is subject to a degree of upward pressure. This is reflected in the debate on assistance to the Mediterranean region (including Turkey) and assistance to the part of Eastern Europe that will not be joining the EC (in particular the relations with Russia and Ukraine). The new financial envelope (EOF-8) for the Lomé Convention does not come within the scope of the discussion because the EOF is not financed as part of the EU budget.

The upward pressure on external expenditure can be expected to continue in the next few years, particularly from the southern Member States. For example, the two-way opening of the market made obligatory by the GATT/WTO agreements and the new agreements with third countries are bound to lead to fresh demands for compensation. However, these demands will encounter stiff opposition from the northern Member States, and the size of the area abroad that qualifies for assistance will also shrink if the associated countries in Eastern Europe join the EU.

The budget for external policy is not expected to differ significantly in the foreseeable future from the existing budget, particularly since the accession of the Visegrad countries will ease the demands on the external budget. The situation described in the previous section will therefore be taken as the starting point for this study.

3.5. Internal policy

The entire internal policy accounts for some 5.5% of the EU budget. The great majority of these funds are spent on the Fourth Framework Programme for Research and Development and the Trans-European Networks (TENs). The European Council in Essen asked the Commission to make proposals for supplementing the budgetary resources available for the TENs. Although extra resources are not needed as the projects are generally slow in getting under way, the possibility of an increase in this item of expenditure after 1999 cannot be excluded. The Maastricht Treaty introduced new internal policy (industry, health, culture and consumer affairs), but here too a brake was applied in the form of the subsidiarity principle. The effect of this principle has been reinforced both by a change of mentality in a number of European countries, which now envisage a more modest role for the Union, and by the greater reluctance of these Member States to transfer more and more resources to Brussels.

Although the budgetary resources for research and development and the TENs may possibly increase after 1999, it seems likely that the internal policy category as a whole will continue to account for only a relatively small share of the EU budget. Here too, therefore, the situation described in the previous section will serve as the starting point for this study.

3.6. Conclusion

The accession of the Visegrad countries to the EU will be taken as an external variable in the scenarios. Scenarios will be devised not only for the reform of the system of own resources but also for reform of the structural funds. There will also be a scenario for the accession of the Visegrad countries. The other aspects of policy will be disregarded in the remainder of this study.

4. Reform scenarios

4.1. Introduction

This section will examine how the structure of the own resources can be changed, what scope there is for incorporating mechanisms in the EU's financing system to limit the net payments by Member States and how responsibility for the structural policies can be returned, at least in part, to the Member States. The consequences of the future enlargement of the EU to include the Visegrad countries will be considered in quantitative terms only in relation to the reform of the structural funds.

These three subjects and the effect on the Netherlands are dealt with separately in this section. It should naturally be remembered that alterations to the revenue side and the expenditure side are closely interrelated. For example, alterations to the structural funds may affect the amount of own resources needed.

4.2. Alteration of the own resources system

4.2.1. Payments to the EU

One of the causes of the negative net position of the Netherlands is its relatively large share of the payments. This section examines to what extent the structure of the own resources system could be changed and how this would affect the payments by the Netherlands. This structure is irrelevant to the size of the EU budget; it makes no difference in this respect whether the resources are generated in the form of the traditional own resources or as a percentage of the VAT or GNP base.

The structure of the own resources could be modified in two ways:

1. replacement of the traditional own resources by GNP-based payments;
2. replacement of VAT-based payments by GNP-based payments.

4.2.2. Abolition of traditional own resources

The amount of the traditional own resources has stabilised at a level of just under 15 billion ECU per year in nominal terms. In practice, these resources are determined exogenously (i.e. they are dependent on the volume of imports and on the import tariffs).

The effect of the abolition of the traditional own resources on the payments by the Member States is shown in table 4.1 below. The advantage of switching from the payment of traditional own resources to GNP-based payments would be that each Member State would then contribute to the financing of the EU in proportion to its relative level of prosperity. The composition of the import package would no longer be relevant. However, there would be the problem of finding an adequate arrangement for the payment of agricultural levies and customs duties to the Member State to which they are due in the case of transit. The same problem arises in connection with the VAT own resources. Here a temporary system (in keeping with the country-of-destination principle) is in operation and the Commission has proposed a permanent system based on the country-of-origin principle. In this way, the operation of the internal market would not be adversely affected (no need for border controls) and the options currently available to importers (payment in country of import or country of destination) would be preserved. However, this would necessitate new administrative procedures (the Member States were already none too pleased with the final VAT system proposed by the Commission). Inevitably, the system would be more open to abuse.

4.2.3. Abolition of VAT-based payments

The own resources system could also be adjusted by replacing the VAT-based payments by GNP-based payments. It was pointed out in section 1 that the effect of the VAT base will already have been greatly reduced by 1999 owing to the fall in the maximum VAT-based payments to 1% in 1999 and the introduction of more rigorous capping. Replacement of the VAT-based payments by GNP-based payments would therefore represent a continuation of an existing trend.

4.2.4. Consequences of alterations to own resources system

The consequences of making the changes described above have been computed to determine their effect on the payments of the Member States in 1999.[16] The results are shown in table 4.1. It should be remembered that the results are partly dependent on the actual ratios between the different own resources in 1999.[17]

[16] As the benefit to the UK of the introduction of GNP-based contributions is offset against its VAT-related rebate, it has been assumed here that the UK would not benefit from a switch to the GNP system of financial contributions. In these calculations, the benefit to the UK on the basis of the UK compensation mechanism has thus been apportioned among the other Member States.

[17] The estimates of the own resources in the Draft Budget for 1996 have been extrapolated to 1999. For this purpose the traditional own resources have been taken as constant. An annual rate of real growth of 2.5% and annual inflation rate of 3% have been assumed for the calculation of the VAT and GNP bases. The VAT payments are based on a uniform rate of 0.85%, which is the maximum percentage in 1999 adjusted to take account of the UK rebate.

Effect of a switch to GNP-based contributions from:

(in prices 1999)	Traditional resources (mln ECU)	(%-GNP)	VAT-based payments (mln ECU)	(%-GNP)	Total change (mln ECU)	(%-GNP)
Belgium	- 529	-0.21	85	0.03	- 445	-0.17
Denmark	12	0.01	77	0.05	89	0.06
Germany	- 67	-0.00	-775	-0.03	- 842	-0.04
Greece	32	0.03	- 40	-0.04	- 8	-0.01
Spain	250	0.05	13	0.00	264	0.05
France	943	0.07	- 79	-0.01	864	0.06
Ireland	- 146	-0.27	- 19	-0.04	- 166	-0.31
Italy	745	0.07	675	0.06	1420	0.13
Luxembourg	15	0.09	- 6	-0.04	8	0.05
Netherlands	- 839	-0.23	- 36	-0.01	- 875	-0.24
Austria	- 26	-0.01	- 17	-0.01	- 43	-0.02
Portugal	- 56	-0.06	- 35	-0.04	- 92	-0.09
Finland	- 55	-0.05	41	0.03	- 14	-0.01
Sweden	- 279	-0.13	118	0.06	- 161	-0.08
UK	0	0.00	0	0.00	0	0.00

Table 4.1. Effect of a switch to a GNP based contribution system on the contributions of the Member States (prices 1999).

Abolition of traditional own resources

In terms of their GNP, Ireland, the Netherlands and Belgium make relatively large payments to the EU, mainly because of the size of their share of the traditional own resources. These countries would therefore stand to benefit greatly if the payments of agricultural levies and customs duties were to be replaced by GNP-based financial contributions (0.21-0.27% of their GNP). Sweden too would benefit considerably from abolition of the traditional own resources (0.13% of GNP).

Abolition of VAT-based payments

Countries such as Italy, Sweden and Denmark which have a relatively low VAT base in comparison with their GNP base would suffer a financial setback amounting to 0.05-0.07% of their GNP if VAT-based payments were to be abolished. The countries that would benefit are Portugal, Ireland and Greece (cohesion countries) and Germany and Luxembourg, all of which have a relatively high VAT base. The Netherlands would gain very slightly from such a change in the system (36m ECU or 0.01% of GNP).

Abolition of traditional own resources and VAT-based payments

Italy has a relatively small share of both the traditional own resources payments and the VAT-based payments and would therefore be put at a serious disadvantage if both systems were abolished and replaced by GNP-based payments (0.13% of GNP). Luxembourg and France too would suffer more than the average from abolition of the traditional own resources (0.09% and 0.07% of GNP). However, both would stand to benefit slightly from abolition of the VAT-based payments.

4.2.5. Conclusion

In summary, the consequences of abolishing the traditional own resources would be markedly greater than those of abolishing VAT own resources payments. The trend towards financing the EU budget on the basis of GNP shares would benefit the Netherlands. This is because it has a larger share of the financing based on the other means.

However, complete abolition of the traditional own resources, of which the Netherlands has a very large share, would seem hardly feasible politically. Abolition would be a drastic process, not only materially but also psychologically. The traditional own resources are closely connected with the internal market and with common external tariffs. On the other hand, it seems more likely that there would be a political willingness to abolish VAT-based financing. This is evident from the decisions underlying the Delors II package, in which most countries were in favour of a reduction in the VAT share. Complete abolition of the VAT own resources is now only a relatively small step away. As a result, the payments would better reflect the relative levels of prosperity of the different countries, and the simplicity and transparency of the EU's financing system would be enhanced. In budgetary terms, it would confer a slight benefit on the Netherlands.

In the past there was discussion of the introduction of a fifth own resource in the form of an EU tax. The Commission indicated at that time that it could find no suitable tax.[18] The Commission will report again on this subject in connection with the negotiations on a new Own Resources Decision. It is, however, unlikely that it will by then have found a good basis for a fifth own resource. In addition, budgetary discipline would seem to be better served by the present system in which the Member States have a direct stake.

[18] The Commission came to this conclusion after reviewing such criteria as ability of the Member States to contribute, the possibility of a harmonised tax base, a uniform rate, tie-in with EU policy, cheap collection, transparency for EU citizens and ability to generate substantial income.

4.3. A net limiter

4.3.1. Reasons for limiting net payments

The idea of net limiters for the EU budget would involve a system in which the negative net position of Member States (net contributors) would be subject to limits. In theory, it would also be possible to devise systems in which not only negative net positions but also positive net positions (net recipients) are subject to a maximum.[19] This will be disregarded here.

The main reason for introducing a generic system of net limiters is that large net payments to the EU could erode support for the EU in one or more Member States. This would in turn undermine the general support for the EU and harm the process of integration. This argument is strengthened because a limit on the net negative position of one Member State of the Union - the UK - already exists. There are no grounds for refusing similar treatment to other Member States, which may sometimes have an even greater negative balance than the UK. Indeed, in the present situation these Member States are even contributing to the UK's rebate (by way of indication, it costs the Netherlands about 400 million guilders a year). A limit on the maximum net payment is becoming more and more desirable for these Member States since their position is continuing to worsen and the amounts are increasing in absolute terms too. Germany and the Netherlands are the largest net contributors, paying around 0.75% of their GNP. It is as well to recall in this connection the conclusion of the European Council of Fontainebleau (June 1984), to which reference is made in the Own Resources Decision:

"*... each Member State which bears a budgetary burden that is excessive in relation to its relative prosperity may in due course be eligible for a correction ...*"

Naturally, it would be preferable to achieve a more balanced division of the benefits and burdens of the Union by an adjustment to the structure of the EU budget (scaling back of the agricultural and structural funds) and/or by a more balanced division of the financial benefits of separate policy programmes. Indeed, this must always be the aim. Although there may have been no success - or only limited success - in making policy adjustments of this kind in the past, this does not mean that efforts should not be made to achieve them in the future. The introduction of a net limiter could at least be wielded as a big stick. The potential accession of

[19] A "two-sided" system of this kind would be harder to negotiate than a one-sided limiter as described here. For example, the maximum net receipts might easily come to be regarded as target figures. The high level of net receipts of a few Member States would greatly complicate the discussions, quite apart from the difficulty of obtaining political acceptance of such a system in all the Member States. Also, the present level of net receipts would in itself probably constitute a natural barrier.

the countries of Central and Eastern Europe, which could result in substantial additional expenditure by the EU and hence in a further deterioration of the net positions, is a final factor militating in favour of efforts to limit the net payments.

4.3.2. Criteria for a generic system of net limiters

Technically speaking, a system already exists: the system for compensating the UK. Although the system provides compensation only for the majority of the difference between the UK's payments and receipts, it does operate as a net limit.[20] A more generic system of net limits could comprise the following components:

- a criterion for determining whether the net payment is too large; the most logical choice would be the net payment as a percentage of a Member State's GNP;
- a threshold above which the additional net payments are limited; the threshold should take account of the fact that not all EU expenditure can be attributed to Member States; a possible threshold would be 0.10% of GNP;[21]
- a percentage of the net payment above the threshold would be repaid to the Member States in the form of a deduction from the payment for the following year (for example, by analogy with the UK rebate of 66%); the costs of this could be apportioned equally among all the Member States; the provision that a percentage should still be paid would ensure that the Member States still have an incentive to combat rising EU expenditure, as they would continue contributing to the payments to fund this increase.

In summary, Member States which pay more than 0.10% of their net GNP to the EU would receive back two thirds of the amount in excess of this level. Figure 4.1 shows the effects of introducing a generic system of net limiters as described above.

Figure 4.1 shows that if the parameters described above are chosen, the system would work to the advantage of the Netherlands, Austria, Sweden and Germany. On balance, there would be no change in the UK's position in relation to the present rebate system. The other Member States would pay a certain price for the introduction of a generic system of compensation, but it would provide them with a guarantee against a future deterioration in their position.

[20] Two thirds of the difference between the share of the UK in the VAT/GNP payments and its share of the allocated receipts, after multiplication by the total EU expenditure to be allocated, is deducted from the UK's payments. The actual UK payment also includes agricultural levies and customs duties.

[21] The 0.10% reflects the expenditure of the EU that cannot be attributed to Member States (incl. administrative expenditure).

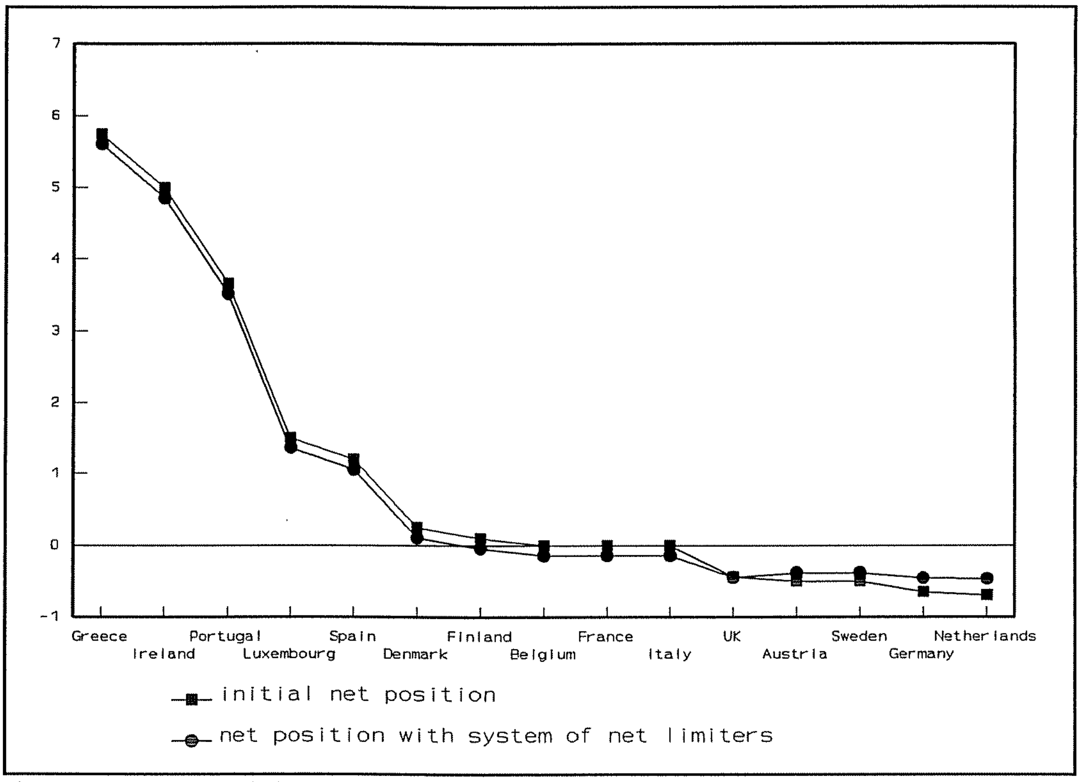

Figure 4.1. Effects of introducing a generic system of net limiters on the net positions of the member states.

4.3.3. Evaluation of a system of net limits

Some possible obstacles to such a system are considered and commented on below.

(a) Difficulty of calculating net positions:

The question is of course whether there should be attributions to Member States and if so of what. Another factor that plays a role here is the distortion of net positions in the statistics of both expenditure (particularly agriculture) and revenues (customs duties and agricultural levies) as a result of strategic trading. However, two factors are of assistance: first of all, there is the undertaking by the Commission to supply the Member States annually with information about their share of the total EU expenditure by sector and about the amounts involved; second, the UK rebate proves that it is possible to calculate the net position.

(b) Determination of the parameters:

There are no objective criteria for determining the limits. This means that concepts such as reasonableness play a role. The present scope of the UK compensation (in the order of 0.25-0.35% GNP) is also a factor: the parameters could be chosen in such a way as to be neutral for the UK.

(c) Net limiters require unanimity:

It is not realistic to expect that the Member States that would be adversely affected (all countries which contribute to the compensation for countries which benefit from a net limit) would agree to this lightly. However, the present and potential major net contributors have a common interest. It is clear that Member States must be prepared to block any decisions on a new own resources decision and the establishment of new financial provisions that do not provide for net limits of this kind.

(d) The EU would be greatly disadvantaged financially and the relationship between the aims of policy and its financial consequences would be disrupted:

The EU can choose between certain policy options each of which results in certain financial flows. There are also other advantages and disadvantages of EU membership which do not necessarily affect all Member States equally (procurement, location of institutions, internal market). An advantage of a system of net limiters would be precisely that the Commission, when elaborating policy proposals, in particular concerning the nature of agricultural policy and structural policies, would be more aware of the need to ensure that they produce a balanced outcome in financial terms too (the Commission could not shift the burden in one direction). The financial mechanism would therefore have a beneficial effect on the policy content. The instrument of the net limiter would therefore be a means of pursuing a policy with a more balanced content. This should increase the level of support for the policy.

4.3.4. Conclusion

The introduction and implementation of a generic system of net limiters is technically feasible. The present and potential major net contributors have a definite common interest in the introduction of such a system. Large negative net positions undermine the support for the EU in the affected countries. However, it is essential that net contributors are resolute in pressing their claim if a system of net limiters is to be brought within reach.

The need, the political pressure and perhaps the scope too for the introduction of a net limiter would arise in particular if the fundamental reform of the CAP and the structural funds fails to materialise to the extent required. Without fundamental reforms, the division of the benefits and burdens of EU membership will become increasingly out of balance. In such a situation, the major net contributors (present and potential) should agree to the establishment of new FP and a new OR Decision only if there is also agreement about the introduction of a generic system of net limiters. The greater the progress in making the fundamental reforms (partly owing to the pressure of the accession negotiations) and in bringing about a more balanced division of the benefits and burdens, the less pressure there will be to introduce a generic system of net limiters.

4.4. Reform of the structural funds

4.4.1. Introduction

Section 2 (2.3.3.) explained how the structural policies of the EU (including the cohesion fund) are organised. In view of the costs of these policies in their present form and the future enlargement of the EU, there should be a fundamental review to determine whether they are sustainable. Four questions should be central to any such review of the structural policies:

(a) Should the policies be for the benefit of the poorest Member States only or should they benefit the richer Member States too (as they do at present)? What should be done at the national level if the more prosperous Member States no longer receive subsidies? Is there a need to continue certain parts of the policies which are not aimed specifically at assisting the poorest areas, but are, for example, intended to promote employment in the EU? This is dealt with at 4.4.2. below.

(b) How should the level of assistance to the eligible Member States be determined? This is dealt with at 4.3.3. below.

(c) How can the EU be enlarged to include the countries of Central and Eastern Europe without the cost becoming prohibitive? This is considered at 4.4.4. below.

(d) How could the implementation of the structural policies be improved if the present system is not fundamentally altered? Two of the matters that will be considered are how to ensure that the existing criteria are objectively applied and what consequences changes in the relative levels of prosperity within the EU (e.g. as a result of enlargement to include the countries of Central and Eastern Europe) may have. This is dealt with in section 4.4.5.

The analysis is abstracted from a detailed evaluation of the various existing objectives of the policies. The basic scenario used here is that the more prosperous countries are barred from receiving money from the structural funds and that objectives 2-5B are therefore no longer applicable.[22] The shape of the future structural policies (i.e. only for the poorest Member States) should therefore be based solely on objective 1 (the present cohesion fund could be integrated in a new structure of this kind).

4.4.2. Exclusion of more prosperous Member States

EU policy after exclusion of the more prosperous Member States

As also indicated in the memorandum on the net position of the Netherlands under the EU budget, the desirebility and the need for the more prosperous Member States to participate in the structural policy of the EU is open to doubt. Under the present system, about half of all structural fund appropriations are for the richer Member States. The apportionment of EU resources would therefore seem at odds with the notion that the aim of the policy should be to make transfers from rich to poor. Only under the cohesion fund are the subsidies used exclusively for the support of the poorest Member States, because only the four countries with a per capita income substantially below the EU average receive subsidies; in other words, the level of national prosperity is the determinant of eligibility for EU resources.

In the case of the structural funds, the allocation is largely on the basis of the level of regional prosperity. This means that countries which are relatively prosperous but are not prepared to provide sufficient support for their own impoverished regions may nonetheless receive resources from Brussels for these regions. It follows that besides the flow of subsidies from rich to poor, there are also numerous cross-subsidies among the richer countries. There are two objections to this on the grounds of principle:

- first of all, it is strange that one prosperous country should on balance provide subsidies for another prosperous country;
- second, the question is whether it is desirable and efficient for the richer Member States too to channel their regional support funds through the EU.

The allocation of resources on the basis of regional instead of national prosperity means that relatively rich Member States with many relatively poor areas tend to benefit more from the EU subsidies than other less prosperous countries whose wealth - although limited - is more evenly divided throughout the country. This means in practice that the Netherlands gives subsidies

[22] An objective-1 region is not eligible for the other objectives. The only exception among the cohesion countries is Spain, because not all of the country has been designated as an objective-1 region. Spain therefore receives funds under the other objectives too.

through the EU to a country such as Italy, although Italy is more prosperous than the Netherlands in terms of per capita income. In this way, a deficient national policy of regional support is rewarded with EU subsidies.

As far as the second objection is concerned, it is arguable that if a country such as the Netherlands wishes to provide subsidies for regional development it can do this more effectively at national level. The national priorities for the choice of deserving areas - both geographical and thematic - can then be determined more efficiently. In the present situation, however, the criteria for eligibility and how the subsidies must be used are decided by the Community. In determining these criteria, the Member States are guided mainly by the desire to maximise their receipts; rational economic considerations are of only secondary importance. In this way, the disbursement criteria as a whole are not primarily geared to making the most efficient use of the available resources. Such decisions could better be taken at national level, where the use of resources could be determined on the basis of rational economic considerations. Another factor is that EU subsidies have to be co-financed nationally, which means that budgetary resources may not be put to the best possible use if Brussels' priorities differ from those of the national government.

In order to meet these objections - the undesirability of cross-subsidies between the more prosperous Member States and the inefficiency of conducting regional policy through the EU - the richer Member States could be barred from participating in the structural policies. A regional policy on the basis of EU criteria is desirable only where the resources are transferred in connection with the cohesion policy.

Table 4.2. below shows what effect exclusion of the richer Member States would have on the EU budget and on the individual Member States. It is estimated that in 1999 approximately 19 billion ECU will be transferred to the four cohesion countries and that some 17.7 billion ECU will be spent in the 11 more prosperous Member States under the present system. If the latter group were to be excluded from the structural funds, this amount of 17.7 billion ECU could be saved. This would amount to a per capita reduction of 57.5 ECU on average. In this respect, it would seem reasonable to cap the amount received by the four cohesion countries to at least the same extent; this would produce a further saving of 3.6 billion ECU. The total saving could therefore be in excess of 21 billion ECU a year, and the EU budget could be cut by around 20%.

(in millions of ECU)

	present receipts (estimate)	receipts modified system	savings contributions	**net result**
Belgium	455	0	667	212
Denmark	185	0	420	235
Germany	4728	0	5986	1258
Greece	3957	3357	286	- 314
Spain	9473	7220	1404	- 849
France	3280	0	3871	592
Ireland	1645	1439	139	- 67
Italy	4760	0	2876	-1884
Luxembourg	22	0	47	25
Netherlands	541	0	959	418
Austria	368	0	576	207
Portugal	4023	3485	262	- 276
Finland	396	0	292	- 104
Sweden	324	0	561	237
UK	2662	0	2972	310
Total	36820	15502	21318	0

Table 4.1. Effects of exclusion of the richer member states from the structural funds (including the cohesion fund) (in millions of ECU, in prices 1999).
Source: Ministry of Finance.

The following points should be made about these results. As regards the effects on the individual Member States, both the gross and the net result should be examined. If the net result for a Member State is neutral or even negative, it is still better off in the sense that it can spend the gross saving on the payments as it sees fit rather than having to see it channelled through Brussels on EU terms.

This reform of the structural policies would provide a solution for the two objections on the grounds of principle mentioned above. Subsidies would no longer be given to the relatively prosperous Member States. And these countries could themselves decide how to administer the regional assistance policy according to their own criteria. A cut in the structural funds expenditure would also help to reduce the level of fraud involving EU funds. However, the reform outlined above does not in itself indicate what level of assistance may be deemed acceptable for the cohesion countries and, in the future, the countries of Central and Eastern Europe.

National policy after exclusion of the richer Member States

If it were decided to exclude the more prosperous Member States from the structural policies, the present recipients of EU subsidies in these countries would no longer be able to benefit from this support. The saving on payments would benefit the national exchequer. In such a situation, it would be up to the individual Member State to determine on the basis of national priorities to what extent and in what way the former EU policy should be replaced by national policy. It is assumed that the net saving, i.e. the saving on the payments less the present receipts from the structural funds, would accrue to the general revenues.

If the Netherlands were no longer to take part in the structural funds of the EU, this need not mean that beneficiaries in the Netherlands would no longer receive subsidy. In cases where Dutch priorities coincide with those of Brussels, cash flows could be continued through national channels. It should, however, be noted that the way in which the regions are selected for support by the EU may differ from the method of selection under national policy. On the other hand, Brussels' priorities for combating employment are at present the same as those of the Netherlands, and part of the subsidies provided by the EU could therefore be continued at national level. However, it would be premature at this stage to assume the existence of such a situation, let alone to make a comparison of priorities.

Horizontal themes

In the scenario under consideration, the EU subsidies would be limited to the poorest Member States and the cross-subsidies between the more prosperous Member States would be ended. As mentioned above, such an alteration to the system is no more than logical given the fact that the primary objective of the structural policies is to provide support for the poorest areas of the EU. In addition to this primary objective based on the cohesion principle, there is also, however, scope for "horizontal" themes. Such themes form the basis of objectives 3 and 4 of the structural funds (support of employment policy in the Member States) and the Community initiatives (numerous horizontal themes). In the case of employment, exclusion of the richer Member States might, depending on national priorities, be undesirable in so far as no alternative resources are available to replace all or part of the EU support. As mentioned above, part of the resources released (saving on payments to the EU) could then be used for additional national expenditure. The precise use of these resources will depend on national priorities and needs.

4.4.3. The level of assistance to the poorest Member States

Under the present system decisions on the criteria governing the structural funds and the cohesion funds are largely political. The level of the transfer of resources has become increasingly important. Regions which are not really eligible for assistance are added to the list of recipients by statistical sleight of hand or even simply as a result of political pressure. Although objective criteria and yardsticks do exist, the level of assistance to the various regions and countries is often determined by negotiations based on vested interests and by trade-offs involving other subjects.

The allocation of resources to the poorest Member States should be determined on the basis of an objective economic criterion, leaving the least possible scope for political manipulation. One aspect of any such criterion should be that the amount received by a Member State diminishes as its relative prosperity increases. This is not only logical but also necessary politically, in order to avoid a situation in which a Member State's subsidy is suddenly cut from 100% to nothing or in which a country that is just under the limit receives a large amount of subsidy while another that is just over the limit receives nothing. There should therefore be differentiation even below the eligibility limit. Care should also of course be taken to ensure that resources are used in an economically efficient and effective manner and that the regulations are not open to abuse.

The need for the present level of assistance to the poorest Member States is also debatable. The four cohesion countries, which have a per capita income of around 10,000 ECU on average, receive over 300 ECU per capita on average from the structural funds (estimate for 1999). By way of comparison, the low-income countries worldwide received an average of 7 ECU per capita by way of official development aid in 1993. The total receipts of the cohesion countries from the EU in 1993 amounted to between 2% and 7.5% of their GDP; a large proportion of this came from the structural funds. This is clear evidence that the subsidy flows within the EU have reached a very high level.

Countless criteria could be devised. However, it would seem logical to use the relative prosperity level (measured in GNP per capita in purchasing power parities) as the criterion. In view of the above reasoning, it would be necessary to ascertain to what extent the level of prosperity in a Member State differs from the EU average. A country such as Portugal with a level of prosperity of some 60% of the EU average would receive more per capita than a country such as Ireland, whose prosperity is about 80% of the EU average. Under the present system, however, Ireland receives more subsidies per capita than Portugal.

Below is a description of the form such a system could take for the present cohesion countries and how the amount of the assistance could be determined objectively. It should be emphasised that the statistical material used relates to the relative prosperity levels in the EU in 1993 (source: World Bank) and that the situation may have changed radically by 1999.

The example given in table 4.3. below takes a system in which the level of subsidy, up to a stipulated maximum, is determined per inhabitant by the extent to which the relative prosperity of the country concerned differs from the EU average.[23] The amounts have been chosen in such a way that the total amount of assistance for the cohesion countries is roughly equal to the amount that they would receive in the system described above (i.e. exclusion of the more prosperous Member States from the structural funds and corresponding per capita reduction for the cohesion countries).

	prosperity per capita (% EU average)	subsidy (ECU)	inhabitants (millions)	receipts (mln ECU)
		(A)	(B)	(A * B)
Greece	54	325	10.4	3380
Spain	80	210	39.1	8211
Ireland	80	210	3.6	756
Portugal	64	325	9.9	3218
Total	-	-	63.0	15565

Table 4.3. Receipts cohesion countries in case of allocation of means on the basis of an objective economic criterion (in 1999, in current prices).
Source: Ministry of Finance.

As stated above, the level of the parameters has been chosen in such a way that the total amount paid to the cohesion countries would be comparable to that paid in the basic scenario in which

[23] The Member States with a per capita income below 90% of the EU average receive a subsidy of 10.5 ECU per inhabitant for each percentage point by which it differs from the EU average. The level of subsidy per inhabitant is also subject to a maximum of 325 ECU.

the more prosperous Member States are excluded from the structural funds. Naturally, the level of assistance to these countries should be reviewed, particularly in the light of the enlargement of the EU and the costs this would entail.[24] Clearly, the decision on the level of these parameters will be largely political and there are countless ways of arranging for the level of assistance to vary within the system that has been described.

A system of the kind outlined above would have the following advantages:

(a) it would provide an objective means of apportioning resources between the Member States; the criterion would be an economic one, which seems a perfectly logical choice in the case of economic assistance to less prosperous countries;

(b) the poorer a country is in relative terms the more subsidy it would receive per capita, subject to a given maximum (this being necessary in view of the absorption capacity); it would also mean that the subsidy policy would remain affordable;

(c) there would be a gradual reduction of subsidies as the relative prosperity of a country increases (assuming that it has not reached the maximum); this would ensure that countries whose income improves do not continue receiving subsidies on political grounds and also that countries would gradually learn to stand on their own two feet.

4.4.4. Enlargement to include Central and Eastern Europe

Although the accession of the countries of Central and Eastern Europe is to be welcomed both politically and economically, such an enlargement would have to be financially feasible. It was indicated in section 2 above that, on the basis of the present structural policies, accession of the Visegrad countries alone would entail costs of approximately 27 billion ECU. In such circumstances, the net position of the Netherlands would deteriorate by over 2.5 billion guilders a year. Clearly, the present policy must be altered if enlargement is to be financially feasible.

As mentioned previously, a fundamental reform of the structural policies would be desirable even without an enlargement of the EU. The basic scenario envisages exclusion of the more prosperous Member States from the subsidy scheme. How the subsidies could be allocated to the poorest Member States has also been described above.

[24] If, for example, the per capita subsidy were to be subject to a maximum of 250 ECU (instead of 325 ECU), this would produce a saving of approximately 1.5 billion ECU on the structural funds. If the other parameter - the amount per percentage point of difference from the EU average - were to be lowered to 5 ECU (instead of 10.5 ECU), the amount paid to these four countries could be reduced by 7 billion ECU. If the eligibility limit for the structural funds were to be reduced from 90% to 75% (as now applies in the case of objective 1), there would be a saving of some 9 billion ECU.

The effects of the enlargement of the EU to include the Visegrad countries are explained below on the assumption that:

- the more prosperous Member States are excluded from the structural funds;[25]
- the less prosperous a Member State is the more it receives in per capita subsidy, subject to a given maximum.[26]

N.B. The relative level of prosperity of the present cohesion countries would be altered by the enlargement!

	prosperity per capita (% EU-average)	subsidy (ECU)	inhabitants (millions)	receipts (mln ECU)
		(A)	(B)	(A * B)
Greece	59	325	10.4	3380
Spain	89	115	39.1	4496
Ireland	89	115	3.6	414
Portugal	71	304	9.9	3010
Hungary	40	325	10.3	3348
Poland	33	325	38.5	12512
Czech Republic	50	325	10.3	3348
Slovakia	41	325	5.4	1755
Total	-	-	127.3	32263

Table 4.4. Receipts cohesion and Visegrad countries after accession in case of allocation of means on the basis of an objective economic criterion (in current prices).
Source: Ministry of Finance.

The above figures are merely intended to illustrate the system by which the structural funds could be reformed. The subsidy amounts (e.g. the maximum amount per capita) are by no

[25] The limit for participation in the structural funds has once again been taken to be 90% of the EU average. The prosperity of the non-cohesion countries as a percentage of the EU average in 1993 was: Belgium 129%, Denmark 129%, Germany 111%, France 125%, Italy 118%, Luxembourg 195%, Netherlands 114%, Austria 128%, Finland 102%, Sweden 113% and UK 113%.

[26] The subsidy base has once again been determined by multiplying the number of inhabitants by 10.5 ECU for each percentage point by which it differs from the EU average; the maximum has again been set at 325 ECU per capita.

means fixed amounts.[27] The costs of enlargement are one reason why a lower maximum should certainly be considered. It should be noted incidentally that the statistics used for the relative levels of prosperity of the different countries may differ substantially from the actual situation at the turn of the century. This does not detract from the value of the system, but it may affect the determination of the level of the subsidy parameters.

4.4.5. Improvements in the event of an unchanged system

Even if the present structural policies are left unchanged, there are a number of matters concerning their implementation which must be taken into account in the future. However, improvements to the system on this basis would not go very far towards removing the fundamental objections of the Netherlands to the present system. Three aspects are considered below:

- the extent to which the criteria are applied objectively;
- the efficient use of EU resources;
- the effects of enlargement on the relative levels of prosperity within the EU.

Application of criteria

Detailed regulations setting out the criteria to be fulfilled in order to qualify for EU assistance have been drawn up for all objectives of the structural funds and for the cohesion funds. Irrespective of the actual objective, the determination of these criteria is the result of negotiations based on the individual interests of the Member States. Quite apart from the fact that the choice of the criteria is therefore debatable, it is not always entirely clear how they are applied.

For example, the limit for qualification in the case of objective 1 (which is by the far the most important in financial terms) is an income level of 75% of the EU average. At present, however, a number of regions have qualified under Objective 1 although their income level was already over 75% at the moment when the Objective-1 list was adopted. These regions were added to the list because great political pressure was brought to bear, but they are not in fact entitled to receive any resources. The assistance provided to these politically selected regions accounts for some 5% of all Objective-1 expenditure (5% is around 5 billion ECU over the

[27] A maximum of 250 ECU per capita would produce a saving of over 6 billion ECU. A reduction of the subsidy from 10.5 to 5 ECU for each percentage point that the level of prosperity differs from the EU average would save around 6.5 billion ECU. And a saving of some 5 billion ECU could be achieved by lowering the eligibility limit to 75% of the average level of EU prosperity.

period 1994-1999, measures in 1994 prices; this corresponds to approximately 500 million guilders in Dutch payments over this period).

Another decision that was taken, once again for political reasons, when the present list was drawn up involved the method for determining the average income. This income would have fallen as a result of the enlargement of the EU to include East Germany. As a result, a substantial number of regions in other Member States would have been lifted up over the 75% limit. It was therefore decided that the criterion should be the EU average <u>excluding</u> East Germany, in order to ensure that these other regions did not fall outside the scope of Objective 1. If the true EU average were to be used, it would be possible to achieve a saving (in addition to the possible saving by the exclusion of the politically chosen regions) of some 15% on the expenditure on this objective (this represents around 15 billion ECU over the period 1994-1999, measured in 1994 prices, which in turn corresponds to around 1.5 billion guilders in Dutch payments over this period).

Another example is the use of the cohesion funds to provide assistance in disguise of "environmental projects" to restore certain places of archeological interest. It is highly debatable whether the provision of such a subsidy is compatible with the criterion that the assistance must benefit the environment.

<u>Efficient use of EU resources</u>

Quite apart from the question of which country should be allocated resources, it is necessary to examine whether the allocated resources are used efficiently and effectively. The first step is to ascertain whether the projects or programmes in question have been executed at a reasonable cost. Second, the extent to which the objectives of structural policies have been achieved must be assessed. In this connection, it is necessary to check whether the economic and social development of the poorest Member States has indeed benefited from the enormous injections of EU capital.

Another question that needs to be asked is whether certain projects would also have been given priority if no EU funds had been available. In the case of the cohesion funds in particular, it is never really clear whether the Member State itself attaches real importance to the execution of the relevant project. Only if the national authorities are required to make a larger contribution would it be possible to determine whether there is a real need in a Member State to carry out a project as a matter of priority. Even within the existing system, therefore, consideration could be given to increasing the national contribution to the costs of EU programmes.

Effects of enlargement on the relative levels of prosperity within the EU

The criterion for the allocation of resources from the cohesion funds is that the per capita income (in purchasing power parities) should be lower than 90% of the EU average. The countries that fulfil this criterion in the EU in its present form are Portugal, Spain, Ireland and Greece. The other Member States receive no resources from the cohesion funds. If the EU were to be enlarged to include the Visegrad countries, the EU average per capita income would fall by some 10%. This might mean that countries such as Ireland and Spain could find themselves at the moment of enlargement over the limit of the new average income and therefore no longer eligible for assistance from the cohesion fund.

In the case of the structural funds, the division is also based on the relative level of prosperity, albeit per region instead of per country, under the most important objective in financial terms (Objective 1). The rule here is that a region is eligible under Objective 1 if its per capita income is lower than 75% of the EU average. As mentioned above, the average EU per capita income would fall by some 10% in the event of the accession of the Visegrad countries. It follows that many regions which now qualify under Objective 1 would be lifted over the 75% limit and would thus cease to qualify.

The Commission's data on regional prosperity used in drawing up the Objective-1 list for 1994-1999 show that after accession a number of regions would indeed cease to qualify for Objective 1. A very rough estimate indicates that, quite apart from the effects of the correct application of the existing criteria and the inclusion of the GDR in determining the EU average, a further 15% of the Objective-1 funds could be saved in this way (which corresponds to about 15 billion ECU for the period 1994-1999, in 1994 prices).

Enlargement would therefore have the effect of substantially reducing the average EU income. This would have a marked impact on the relative levels of prosperity in the EU and would thus lead to a situation in which a number of regions/countries currently in receipt of assistance no longer fulfil the criteria for EU assistance. In view of the experience gained with the application of the criteria, however, it is doubtful to what extent this would lead to a reduction of the assistance to the present Member States.

4.4.6. Conclusion

About half of the resources of the structural funds are used for cross-subsidies between the relatively rich Member States. In practice, this means that Member States such as the Netherlands contribute to the structural policy in more prosperous Member States such as Italy. In addition, the priorities of regional policy - both geographical and thematic - can be fixed more effectively at the national level. Only where it is desirable to arrange the transfer of resources though the EU, for example for the policy on cohesion, is it better to determine the policy priorities and allocation of resources at the EU level. This alone is a sufficient reason for a fundamental reform of the structural policies. But such a reform is also necessary to make possible the accession of the countries of Central and Eastern Europe. In the absence of reform, this accession would cause a substantial increase in the budgetary funds for the structural policies and hence a large rise in the payments made by the Netherlands and the other Member States to the EU.

To provide a solution to these problems, only Member States whose national prosperity is below a certain limit should be eligible for support from the structural funds. The richer Member States could then pursue their own regional support policy based on their own national priorities. The next problem is to find an objective, economic criterion for the level of allocation of resources to the poorest Member States. A system has been proposed in which the level of subsidy per inhabitant is determined by the extent to which the relative level of prosperity of a Member State differs from the EU average. This has the advantage that the level of assistance decreases as the relative level of prosperity improves. In this way, the Member State in question learns to stand on its own two feet. Owing to the need to limit the budgetary resources and to the constraints of the absorption capacity, a maximum has also been proposed for the per capita subsidy.

The Netherlands would greatly benefit from the reform of the cohesion and structural policies described above. First of all, there is the budgetary benefit. The Netherlands would no longer need to contribute to the financing of the structural policies in other richer Member States. Second, the "renationalisation" described here would enable the authorities in the Netherlands to shape the regional support policy in accordance with their own priorities. Not only the "old" EU resources but also the obligatory co-financing could then be allocated on the basis of national criteria. Where the national priorities coincide with the EU priorities the policy could be continued, and where not a decision could be taken at national level to reallocate the resources. Such a decision would have to be taken for example in the case of the "horizontal themes" such as combating unemployment. Naturally, the scope for national decisions on regional policy would be limited by the provisions of the EC Treaty, for example the competition rules.

If the structural funds were to be reformed along the lines described above, this would leave the cohesion funds and objective 1 of the structural funds. If the various funds are maintained, an alteration to the Treaty would not seem necessary for the time being. It would in principle be possible to supplement the Regulations with a criterion that only regions located in a Member State with a per capita income below a certain limit may qualify for EU subsidies from the structural funds. It is debatable, however, whether this would be sufficient, since although the addition of a national prosperity criterion may not infringe the letter of the Treaty, it would infringe its spirit.

The two options outlined above for the structural funds are the extremes: either a fundamental reform or merely an improved version of the present policy. The best solution would of course be a combination of the two. On the other hand, individual components of the two approaches could be used if it should transpire at some point that a comprehensive solution is not possible.

5. Discussion and conclusion

There is growing resistance in a number of EU Member States, including the Netherlands, to both the increase in the gross payments and the size of the net payments to the EU. Since the UK already has a generous compensation arrangement, Germany and the Netherlands in particular have argued in favour of a more balanced distribution of the financial burdens of EU membership. An additional factor is that the countries of Central and Eastern Europe have now obtained a definite prospect of accession to the EU under the Europe agreements. If policy were to remain unchanged, the accession of these countries would result in an enormous increase in the EU expenditure. The financial burdens of this increase in expenditure would be borne almost entirely by the present 15 Member States of the EU. Finally, the inefficiency, ineffectiveness and susceptibility to fraud of a number of parts of EU policy are attracting increasing criticism. This is particularly true of the common agricultural policy and the structural policies.

In view of the above, a critical appraisal of the existing EU policy is unavoidable. It is necessary to decide how EU policy should be reformed in order to limit the level of gross payments, ensure a balanced division of the financial benefits and burdens of membership, and at the same time make possible the accession of the countries of Central and Southern Europe. As the largest net contributor in relative terms, the Netherlands has a special interest in initiating this debate.

Analysis of the EU's present system of financing leads to the following conclusions:

- The Netherlands would benefit greatly if the payment of agricultural levies and customs duties were to be replaced by GNP-based financial contributions; however, this is very unlikely to happen as such a process would be very drastic, not only materially but also psychologically.
- The Netherlands would derive little benefit from the complete abolition of the VAT own resources payments; however, replacement of these payments by GNP-based payments would result in contributions for this part of the own resources which better reflect the relative levels of prosperity. It would also increase the transparency of the EU's financing system.
- The introduction of a fifth own resource in or after 1999 does not seem likely even in the negotiations on the Santer-I package, and any such resource would also tend to undermine budgetary discipline.

On the subject of a more balanced distribution of the financial benefits and burdens, the findings of the analysis are as follows:

- As the largest net contributor, the Netherlands would benefit from the introduction of a generic system of net limiters; implementation of such a system would be technically feasible.
- The need and scope for the introduction of a generic system of net limiters would arise in particular if the CAP and the structural policies were to be insufficiently reformed.
- The future accession of the countries of Central and Eastern Europe will make a generic system of net limiters even more necessary.

The following *conclusions* may be drawn from analysis of the objectives and effects of the structural policies of the EU:

- To prevent *cross-subsidies* between the more prosperous Member States and enable policy priorities to be determined correctly, the relatively prosperous Member States should be excluded from participation in the structural funds of the EU; only Member States whose level of national prosperity is below a certain limit - the cohesion countries - would then qualify for assistance from the structural funds.
- Resources should be allocated to the cohesion countries on the basis of an objective economic criterion; under such a system, the per capita payments would be subject to a maximum, and would decline as a country becomes more prosperous in relative terms.
- After exclusion of the more prosperous Member States from the EU structural policies, a replacement regional policy could be established at national level, subject to the constraints of EU legislation; in the case of a partial renationalisation of the structural policies in this way, special attention would have to be paid to the horizontal themes such as employment.
- A fundamental reform of the structural policies is also necessary to make possible the future accession of the countries of Central and Eastern Europe.
- Quite apart from the necessary reforms, measures must be taken to ensure the effective and efficient use of resources and to prevent fraud.

Annex I

Terms of reference
Interdepartmental policy study European expenditure

The Netherlands, traditionally a net recepient of funds from the EU, has become a large net contributor to the European Community. It is even expected that from 1995 on the Netherlands will be the single largest net contributor to the EU in relative terms. This net position is expected to deteriorate further from a net contribution of about 4.2 billion guilders in 1995 to about 6 billion guilders in 1999. The change is brought about because the nature of the present policy expenditure of the EU means that the already small Dutch share of this expenditure will decline still further, and also because the payments of the Netherlands to the EU will continue to rise.
A principal feature of the system of contributions to the EU is the own resources ceiling, which increases from 1.20% of GNP in 1990 to 1.27% of GNP in 1999. The principal expenditure categories of the EU are agricultural expenditure (about 50% of total EU expenditure) and structural funds expenditure (about 30% of total EU expenditure). The financing system lacks mechanisms and incentives to influence the outcome of the financial process.
The aim of the policy study is to examine what opportunities the Netherlands has to attain a more balanced outcome of the financial process of the EU by means of adjustments to both the financing system and the policy of the Union. Attention should be focussed on an examination of the financial consequences of changes to the agricultural and structural funds policies, as well as an examination of the possibilities to integrate in the own resources system of the EU a mechanism which limits the net contributions of Member States. Bringing back the financial responsibility for agricultural policy to the national level should be one of the scenarios under examination. A similar scenario could be examined for reform of the stuctural funds policy.

Another subject explicitly dealt with in the study should be that accession of the associated countries in Central and Eastern Europe to the EU in combination with an unchanged system of own resources and policy expenditure would result in an sharp organic growth of Dutch contributions to the EU.
Because of the specific knowledge demanded for particularly the agricultural part, the study will be divided in two parts:

Part I : Agricultural expenditure

Chairman: Ministry of Agriculture, Nature Management and Fisheries

Participating departments: Agriculture, Nature Management and Fisheries; Finance; General Affairs; Foreign Affairs; Economic Affairs; Social Affairs and Employment.

Part II : Other expenditure and general aspects

Chairman: Ministry of Foreign Affairs

Participating departments: Agriculture, Nature Management and Fisheries; Finance; General Affairs; Foreign Affairs; Economic Affairs; Social Affairs and Employment.

Annex II

Members of the interdepartmental working group European expenditure, part II (other expenditure and general aspects)

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