Real Instituto Elcano
de Estudios Internacionales y Estratégicos

Farewell to Funds? Keys to Understanding Spain's Position when Negotiating the 2007-13 EU Budget

José I. Torreblanca

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Farewell to Funds? Keys to Understanding Spain's Position When Negotiating the 2007-13 EU Budget[1]

José I. Torreblanca *

Summary: Provided the French vote 'Yes' in the forthcoming referendum on 29 May, the European Council meeting in June this year will be set to reach a budgetary deal for 2007-13. However, as economic stagnation in the Euro-area leads the richest EU countries to increasingly see the way out of their economic problems in reducing their contribution to the EU budget, Spain runs the risk of bearing on its own the burden of enlargement to the East. With agricultural expenditure having been shielded from substantial cuts by the Franco-German agreement of October 2002[2], most of the money currently on the negotiating pertains to the Cohesion and Structural Funds from which Spain benefits so much. Because Spain risks becoming a net contributor to the budget before having reached real convergence with the EU-15, the negotiations on the next financial perspectives (2007-13) can be considered the most crucial of all those in which Spain has been involved so far. Why?

1. What is at Stake

The European Commission's proposal currently on the negotiating table concerning the distribution of Cohesion and Structural Funds implies that, over the 2007-13 period, Spain will receive an estimated €23.4 billion less compared with 2000-06.

Of particular concern are the €12.4 billion in Cohesion Funds which Spain will cease to receive due to the statistical effect of enlargement, which has pushed Spain's per capita GDP over the 90% threshold qualification.[3] In an EU of 15 members, Spain's average income (2003) would be at 87% of the average, thus still qualifying it for Cohesion Funds. However, because of the statistical effect of enlargement, the same per capita income amounts to 95% of the EU-25 average (2003), thereby losing its entitlement.[4] Since the Treaty on the European Union (TEU) does not envisage any transitional period or phasing-out mechanism for this fund, it may well be lost in its entirety.

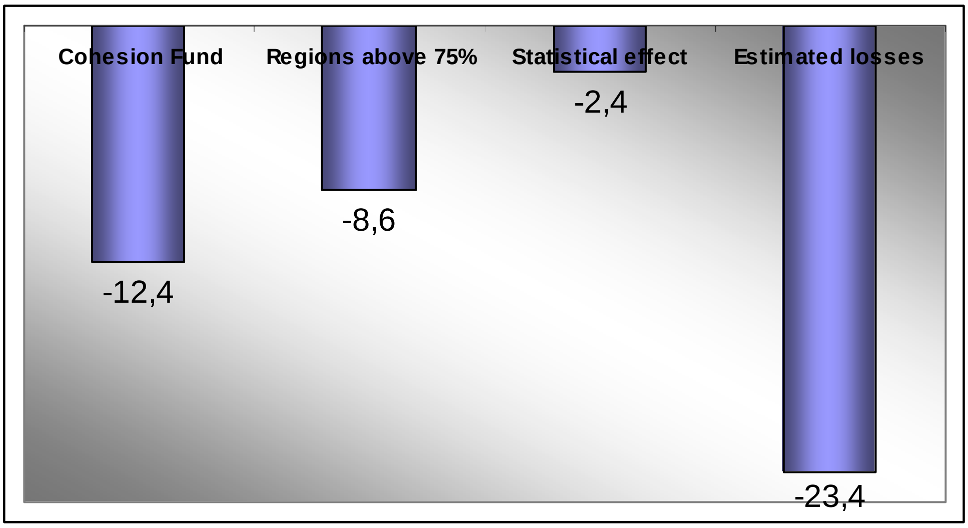
Similarly, of the 12 regions which have qualified for structural aid during 2000-06, half of them (Asturias, Castilla-León, Castilla-La Mancha, Murcia, Ceuta and Melilla) would cease qualifying for regional funds in an EU of 25 members because of a mere statistical effect; three (Galicia, Andalucía and Extremadura) would remain below the 75% ceiling even in an enlarged EU-25 and another three (Cantabria, Valencia and Canarias) would cease qualifying because of 'natural' convergence, having already reached the 75% threshold at the EU-15 level.[5]

Therefore, even counting on a phasing-out fund of 40% of the quantities received during 2000-06 for regions that have reached 'natural' convergence and 66% for those that have

* *Senior Analyst, Europe, Elcano Royal Institute*

reached convergence by the statistical effects of enlargement, Spain would cease to receive a further €8.6 billion due to 'natural' convergence and a further €2.4 billion due to the statistical effect.

Figure 1. Estimated losses in payments from the EU for the period 2007-13 (figures in € billion)

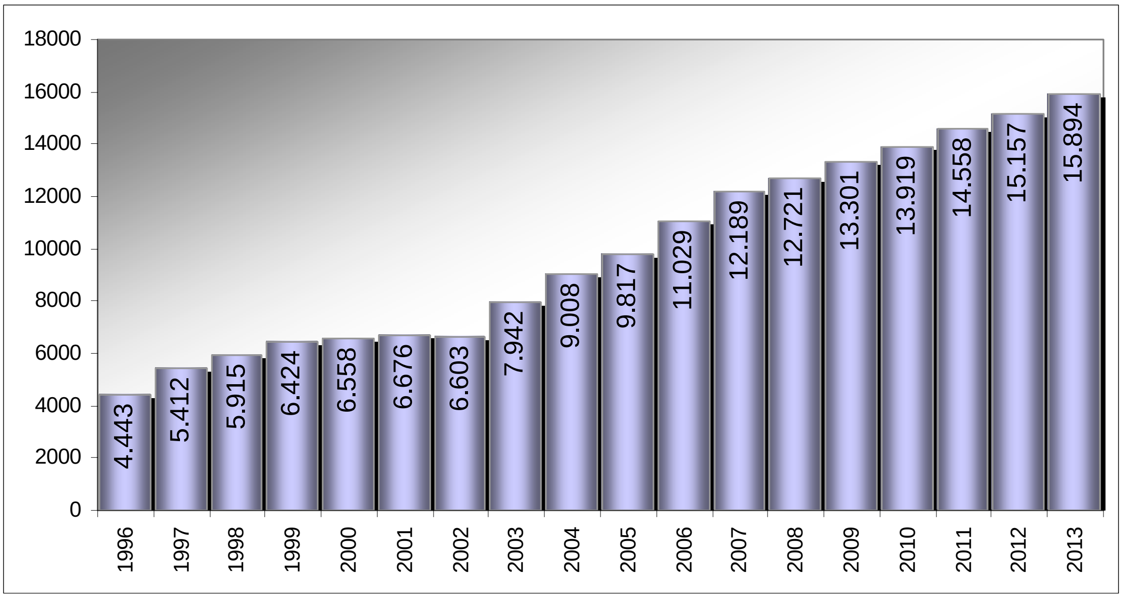


Source: S. Sosvilla and J.A. Herce, *La política de cohesión europea y la economía española: evaluación y prospectiva'*, Real Instituto Elcano, Working Paper 52/2004, available at *http://www.realinstitutoelcano.org/documentos/141.asp*.

This would mean that while between 2000 and 2006 Spain will have received €60.2 billion in Structural Funds, between 2007 and 2013 Spain will only receive (in phasing-out payments) €36.3 billion.[6] The difference –€23.9 billion according to Spain's Finance Ministry (MINECO), €23.4 billion according to Sosvilla and Herce (2004) or €25 billion according to FEF (2005)– amounts to a loss of approximately 40% of Spain's net balance compared with the previous period or, alternatively, around €3.4 billion per year.

To the losses derived from decreased payments from the Community budget one should add the impact of increased contributions to the EU budget. According to the estimates of Spain's Finance Ministry, Spanish contributions to the EU budget are to double, from €9,817 million in 2005 to €15,894 million by 2013.[7]

Figure 2. Spain's contributions to the EU budget (1986-2013, in € million)



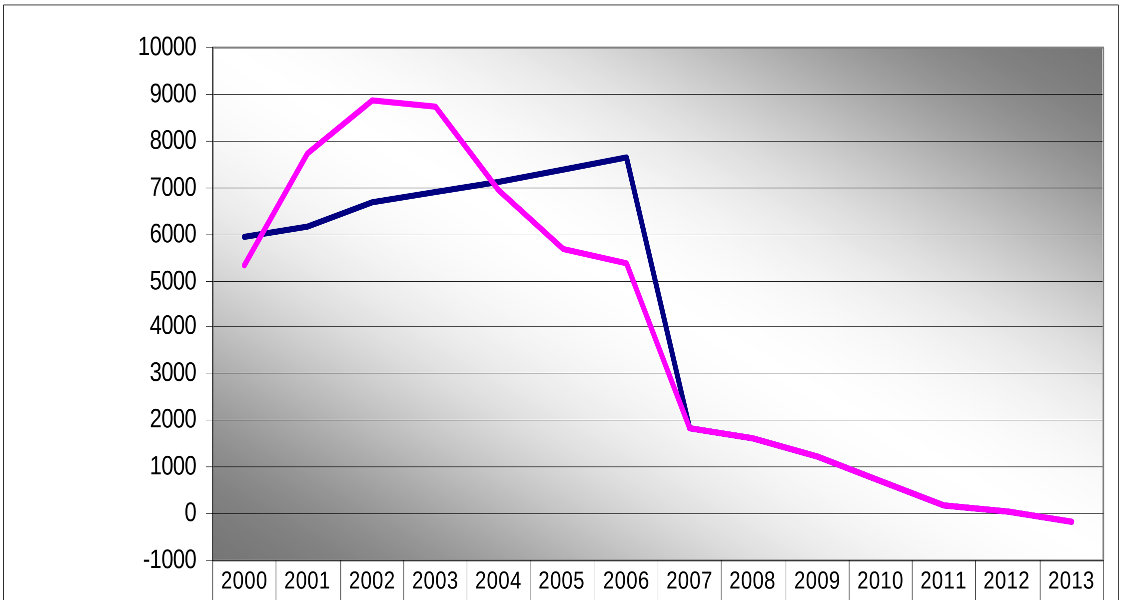
Source: the author, using MINECO and SEUE data. 2006-13 are estimates based on projections on Spain's current growth and inflation differentials with the EU.

Given Spain's rapid and intense economic growth, especially compared with average growth rates in the EU area, –but also on account of higher nominal prices due to inflation differentials– Spain's contributions to GDP have been steadily rising over the past few years and are planned to continue to do so over the coming years. Spain's Finance Ministry estimates that contributions to the EU budget, which represented €54,875 million in 2000-06, should add up to €79,971 million by 2007-13. This largely coincides with unofficial estimates, which set contributions to the budget between 2000-06 at €56,066 million (at 2004 prices) and predict that contributions to the budget for 2007-13 should rise to €87,025 million (at 2004 prices).[8]

Spain would thus increase its contributions to the budget by 55% between 2000-06 and 2007-13. In contrast, according to these same sources (FEF 2005), by 2017 the Netherlands' contributions would have only grown 38%, Germany's 42%, Sweden's 46%, France's 45% and Austria's 44%. Given an average growth in national contributions to the EU budget of 47% across the two periods, Spain would be the member state, along with the UK and Greece, whose contributions to the budget would have risen most (55 and 56%, respectively).

As a result of this rise in its contributions to the budget, Spain's current net balance would suffer a further cut of €25,096 million over the next financial period. This would mean a further cut of €3,585 million per year, ie, an additional 40% of Spain's current net position. The result is that, as shown in Figure 3, Spain would move from a net balance of €7.6 billion –if considering commitments for appropriations– or, alternatively, €5.4 billion –if considering actual payments– in 2006 to a net balance of €1.8 billion in 2007, ending in negative balance of €167 million by 2013.

Figure 3. Spain's estimated net balance with the EU (2000-13) according to the Commission's proposals (in € million for a 1.24% EU GNI expenditure ceiling)



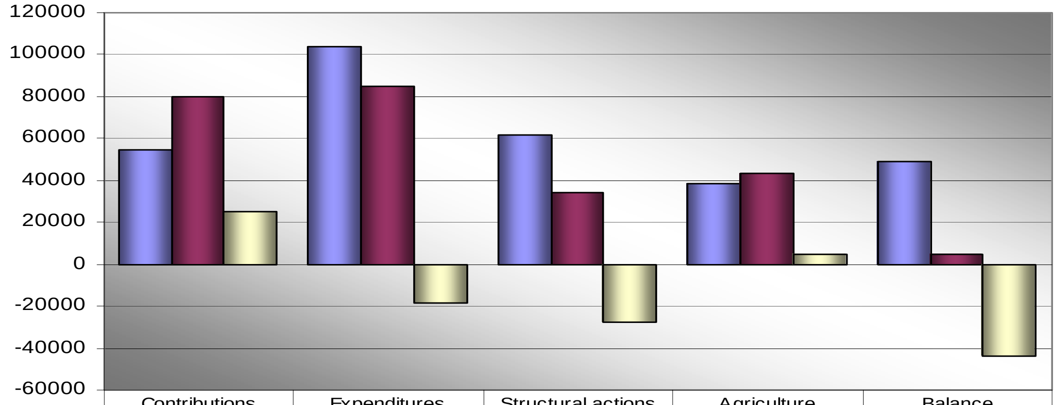
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
committments	5946	6147	6675	6918	7123	7385	7662	1841	1600	1215	705	169	63	-167
payments	5346	7738	8880	8733	6958	5673	5389	1841	1600	1215	705	169	63	-167

Figures in € million.
Sources: Spain's Ministry of Finance for commitments in 2000-06 and for payments 2000-05; finance minister Pedro Solbes, speaking to the Senate on 24/XI/2004, for 2002-06 payments; *El País*, 29/IV/2004, citing government sources, for payments (2006); all sources coincide as regards estimates for the net balance 2007-13 (but not specifying whether they refer to commitments or appropriations).[9]

The two trends combined, increased contributions and decreased payments, would inevitably lead to Spain suffering an abrupt and sudden loss of funds starting already in 2007 and ending the period being a net contributor to the EU budget (in fact, as shown in Figure 3, Spain's net balance is already suffering a deterioration).

As a result, whereas during 2000-06 Spain would have contributed €54,874 million and received €103,590 million, the 2007-13 period might see a contribution of €79,971 million and expenditure of €84,971 million. This would mean that Spain would still enjoy three years (2007-09) with a net balance of over €1 billion, would subsequently be close to a balanced contribution (2010-12) and would end the period as a net contributor to the budget (2013), although in only symbolic terms.

Figure 4. Projected impact of the Commission's proposals on Spain's balance



	Contributions	Expenditures	Structural actions	Agriculture	Balance
2000-2006	54875	103590	61890	38550	48715
2007-2013	79971	84971	34468	43324	5000
Difference	25096	-18619	-27422	4774	-43715

Figures in € million.
Source: the author, based on figures from MINECO/SEUE; see Navarro and Viguera, *op cit*., and *El Pais*, 13/IV/2005, p. 60.

A comparison between Spain's financial balance and that of the Union in 2000-06 and 2007-13 leaves no doubt as to why Spain has publicly considered the Commission's proposal 'unacceptable'.[10]

Putting all the figures together, Spain's net balance with the EU, which will have added up to €48.7 billion in 2000-06, will be reduced to approximately €5 billion in 2007-13. As a consequence, under the 1.24% ceiling scenario contemplated by the Commission, Spain will be left with a net balance for the whole period of only €5 billion, compared with the €48.7 billion positive balance held during 2007-13. The net loss in changing from one financial perspective to the other would thus be of around €43.7 billion. This would represent a change from an average net balance with the EU of €6.9 billion per year to an average balance of €714 million per year, which in terms of GDP would mean the passage from a net balance of 1.2% of Spain's GDP to a net balance of 0.17% at the end of the period.[11]

This is what is at stake. For a long time a net receiver of EU funds, Spain may end up now being a net contributor to the budget. But the threat is not so much what Spain's contributions to the budget will be in 2013. Rather, the key question is whether Spain will suffer a sudden and abrupt loss of funds or if it will enjoy a mild and moderate phasing-out. In a scenario of a mild and gradual loss, Spain would benefit from having more time to adapt to the new situation, reassess its national priorities in light of the new funding constraints and reassign national funds according to its new priorities. In a scenario of a sudden and abrupt loss of funds, however, Spain might experience economic difficulties to sustain public investment and jobs currently linked to EU funding (at present exceeding 1% of Spain's GDP) with national funding.[12]

The question is therefore whether the country is prepared for this sudden loss of funds and what the impact on Spain will be.

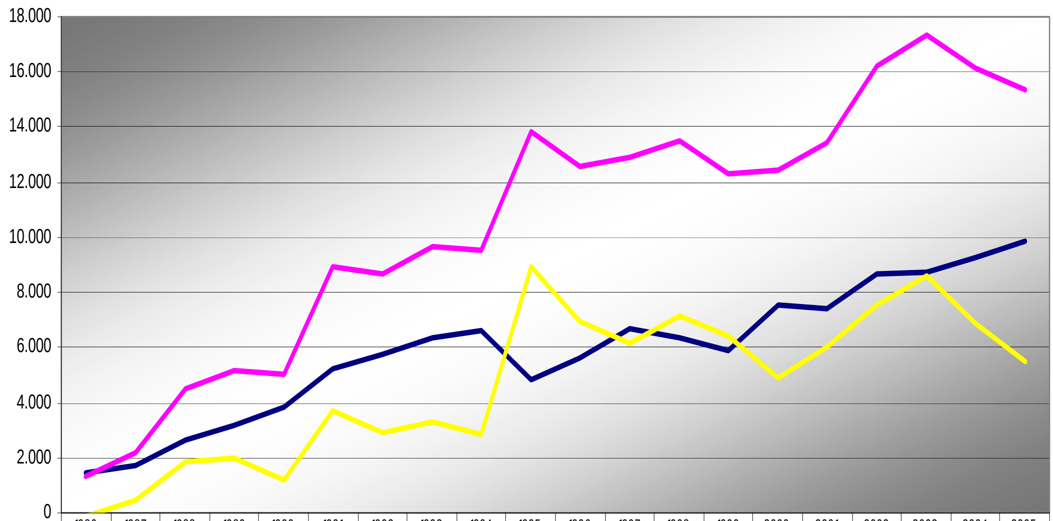
2. Spain's Fears: A Rosy Past Overtaken by a Gloomy Future?

In June of this year, at a time when the debate on the EU's 2007-13 financial perspectives will be reaching its climax, Spain will commemorate the 20th anniversary of the signing of its Accession Treaty. Over the past twenty years the country has completed an impressive transformation: emerging from international isolation and an authoritarian regime which ended as late as 1975, Spain's peaceful transition to democracy, coupled with an impressive social and economic transformation, is often both admired and envied. For a country that missed out on the Marshall Plan and American solidarity, the €93.3 billion (at 2004 prices) in net transfers from the EU budget which Spain has received since 1986 fully embody what European solidarity can mean in practical terms.[13]

In its first year of membership, Spain was a net contributor to the budget. Over the following years, however, EU expenditure in Spain steadily rose until its historic peak in 2003, when it reached €17.3 billion, leaving Spain with a historic positive balance of €8.6 billion. Due to Spain's economic growth, contributions to the budget have also steadily grown, almost doubling over the past five years until reaching their historic peak of €10.1 billion in 2005 (in constant prices).

During the twenty years of its membership in the EU (1986-2006), Spain will have contributed €117.6 billion to the EU budget and received €211 billion (in 2004 prices). This means a total positive balance of €93.3 billion (in 2004 prices), which implies a net transfer of 0.83% of Spain's GDP every year for twenty years or, from a different angle, an average return of €1.85 for each euro Spain has contributed to the budget (FEF 2005, C.1).

Figure 5. Spain's budgetary relations with the EU (1986-2005)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
contributions	1451,44	1.707,76	2.624,45	3.157,75	3.830,07	5.204,55	5.773,49	6.347,01	6.640,26	4.856,24
expenditures	1341,51	2.159,27	4.500,38	5.146,03	5.052,58	8.913,88	8.692,32	9.679,04	9.507,46	13.819,80
balance	-109,93	451,51	1875,94	1988,29	1222,52	3.709,33	2.918,82	3.332,04	2.867,20	8.963,56

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
contributions	5.627,72	6.698,48	6.330,53	5.912,16	7.559,83	7.412,41	8.658,53	8.734,56	9.275,14	9.854,29
expenditures	12.580,50	12.883,40	13.467,81	12.332,36	12.460,76	13.439,39	16.190,10	17.330,86	16.179,46	15.330,33
balance	6.952,78	6.184,93	7.137,28	6.420,20	4.900,92	6.026,98	7.531,57	8.596,30	6.904,32	5.476,04

Note: figures in 2004 prices courtesy of Simón Sosvilla.
Source: author's compilation from MINECO figures (years 2000-05); J.A. Herce and S. Sosvilla, 'Los efectos macroeconómicos de la agenda 2000', Documento de Trabajo 99/21, FEDEA, p. 5 (chart 2, years 1986-99). Expenditures refer to actual payments, not commitments for appropriations.

EU expenditure in Spain over the period 2000-06 has been crucial both to sustain Spanish agriculture and the least developed regions (agricultural and structural actions have each represented 48% of the money which Spain receives from the EU). While agricultural funds total around €7.6 billion, the Regional Development Fund, at around €4.2 billion, represents the main category of structural expenditure in Spain, followed by the Cohesion Fund, at €1.79 billion, and the European Social Fund, at €1.78 billion.[14]

Figure 6. Breakdown of EU expenditure in Spain 2000-06 (€ million)

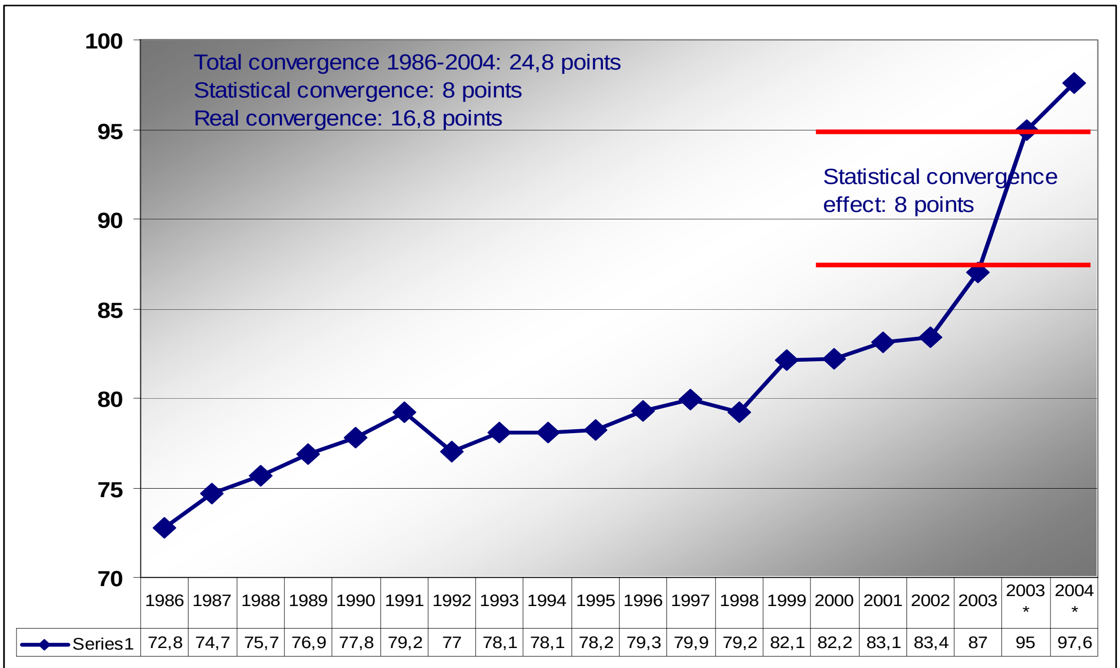
	2000	2001	2002	2003	2004	2005	2000-05
EAGF-G	5,481.88	6,149.49	5,933.07	6,459.07	6,803.53	6,539.13	37,366
EAGF-O	516.65	630.24	981.25	1,273.52	1,473	1,138	3,885
ERDF	2,818.88	3,380.61	4,047.8	543.73	4,000	4,200	18,991
ESF	796.58	1,084.76	1,795.55	1,652.61	2,030.25	1,706.95	8,270
Cohesion Fund	1,197.08	868.50	2,120.43	1,799.27	1,520	1,791	8,428
Other	150.12	153.60	442.06	330.61	352.68	384.50	150
Total	**10,961.19**	**12,287,20**	**15,320.16**	**16,858.81**	**16,179.46**	**15,759.58**	**77,089.73**

Source: MINECO; figures for 2004-05 are estimates; all figures in current prices.

The importance of these transfers cannot be underestimated. As mentioned earlier, EU funds have represented 0.82% of Spain's GDP yearly between 1986 and 2003, peaking at over 1% in 2001-03.This means that each Spaniard has received €129.9 from the EU each year since 1986.[15] According to studies carried out in Spain, by pushing the country's growth rate by an average of 0.4 points over its expected rate if funds had not reached Spain, EU funds would be responsible for between 5 and 6 of the 15 points in relative average income which Spain has gained since it became a member of the EU in 1986 (average income when joining in 1986 was 72%). The contribution of EU funds to other macroeconomic dimensions cannot be neglected: on average, structural actions have meant the maintenance of some 300,000 jobs a year, also being responsible for 40% of Spain's productivity growth and a large part of Spain's public investment.[16]

Due to the combination of structural reforms and EU reforms, the country, starting from an income per head of 72% of the EU average, has almost reached the average (Spain's relative income in 2004 was at 97.6%), unemployment and inflation have reached historic lows, and outflows of foreign direct investment have for the first time exceeded inflows.

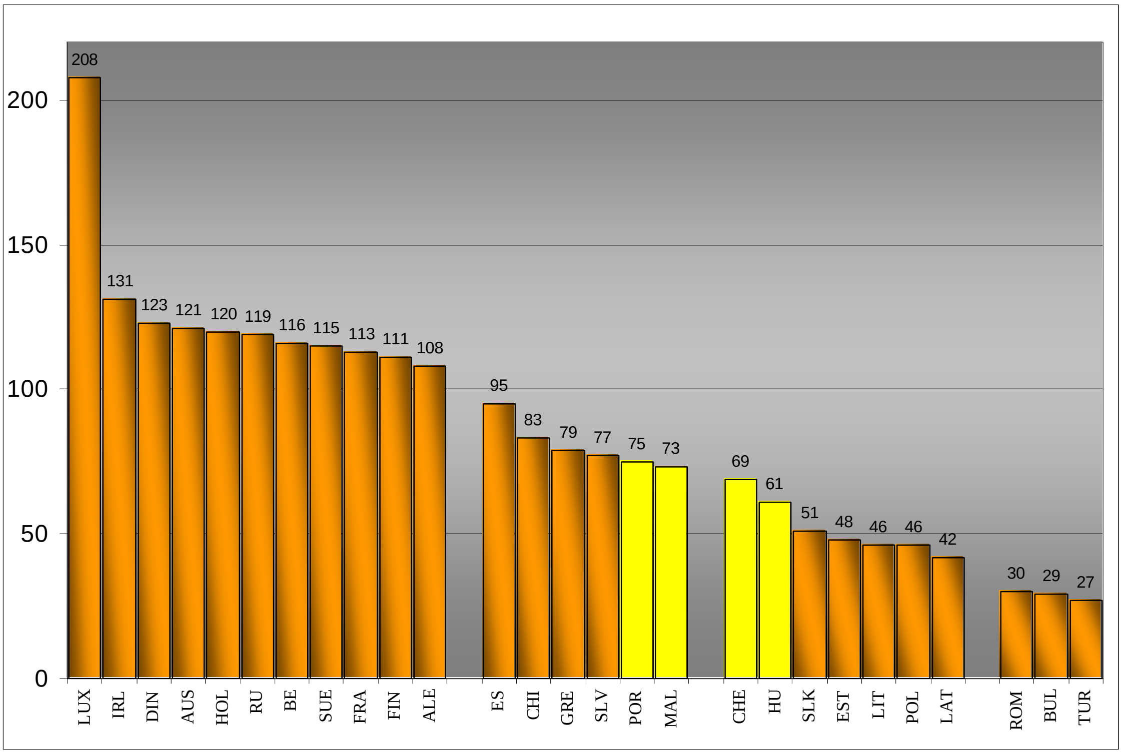
Figure 7. Spain's convergence with the EU-15 and EU-25 (1986-2004)



Source: Eurostat; 'GDP per Capita in Purchasing Power Standards for EU Candidate Countries and EFTA, Nowcast 2003'. *Statistics in Focus*, *Economy and Finance* 27/2004. See also M. Castells and C.A. Zaldívar; *España, Fin de Siglo,* Alianza Ed., 1992, p. 75. Figures for 1986-2003 are for EU-15; figures for 2003* and 2004* are for EU-25.

No doubt, Spain represents a success story, a revealing example for new or future EU members of what EU membership can lead countries to achieve. Yet behind this rosy scene, there are important problems and potential threats. True, Spain has almost bridged its wealth gap with the EU. But one should not forget, first, that a sizeable share of Spain's convergence with the EU is due to the statistical effects of enlargement; second, that the country has not yet reached full convergence at 15; and, third, that what remains to be achieved may prove to be more difficult than what has been achieved so far.

Figure 8. Spain's position in an enlarged EU-25. Average per capita GDP EU-25 = 100 (2003)



Source: Eurostat. 'GDP per Capita in Purchasing Power Standards for EU Candidate Countries and EFTA, Nowcast 2003'. *Statistics in Focus, Economy and Finance,* 27/2004.

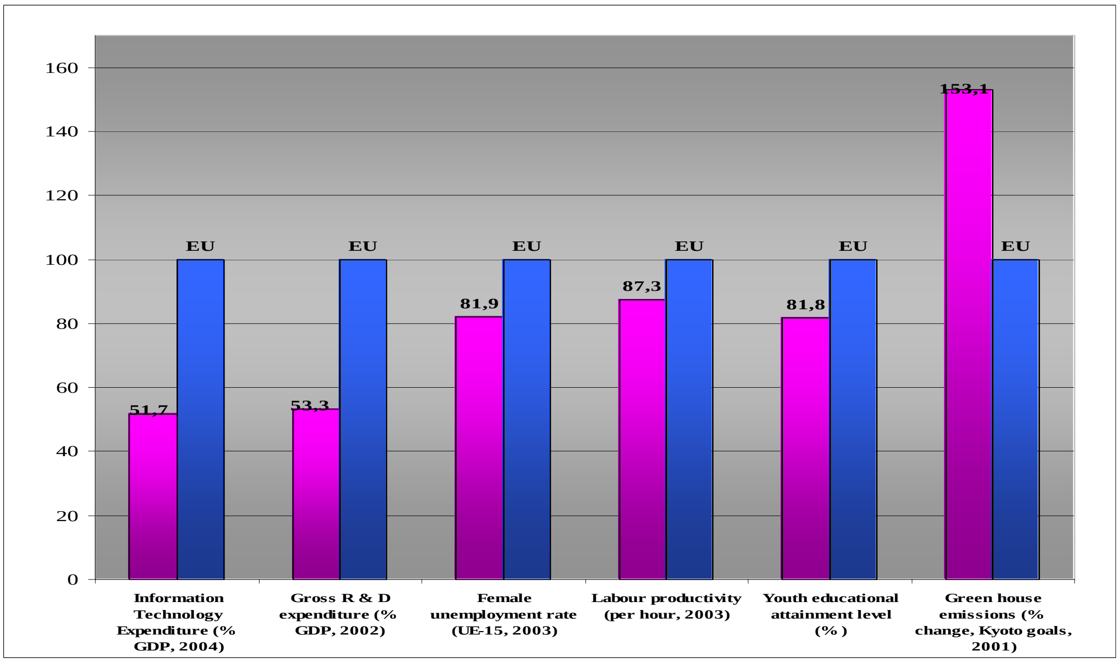
Therefore, although Spain's per capita wealth levels are currently at 97.6% of the EU-25 average, the statistical effect of enlargement is responsible for one third of those 24 points which the country has bridged over the past twenty years. Actually, even after counting on this statistical effect, Spain's average wealth is still only superior to that of Greece and Portugal. As a consequence, not even in an enlarged EU does Spain enjoy a clear position as a rich country. Despite the achievements, much remains to be done and to be consolidated for the country to be able to sit back and relax.

Looking ahead, it is not difficult to anticipate that what lies in the future in terms of real convergence may be quite difficult to achieve. While growth in the Euro-zone remains extremely weak, unemployment rises in key countries as key partners fail to implement much needed economic reform policies and the Lisbon Agenda stagnates, Spain faces increased economic competition from both Eastern Europe and the emerging global economies.

For various reasons, Spain has not managed so far to take advantage of the economic opportunities arising from the opening up of Central and Eastern Europe, either in terms of trade or investment: while trade exchanges are low (Spain has a share of only 2.1% in the imports of the new members), its share of FDI in the candidate countries was of only 0.5% in 2001. Yet it is suffering increasing trade and foreign investment competition from these countries. Due to sluggish productivity growth rates and a systematic loss of competitiveness, Spain's export capacity is decreasing at the same time that foreign and national firms evaluate whether to move East to benefit from low salaries and taxes.[17]

In 2004, at the same time that Spain reached 97% of the EU-25's per capita wealth average, its trade deficit doubled to a historic high of €39.5 billion, representing 5% of its GDP and subtracting 1.3% of its GDP growth. At the same time, foreign firms in Spain sold assets worth €10 billion and Foreign Direct Investment fell by a third. Reflecting on these tendencies, a study estimated that 15% of Spanish industry was under a serious delocalization threat to the benefit of Central and Eastern Europe.[18]

Figure 9. Spain and the Lisbon Agenda (relative performance in %, EU-15 = 100)



Source: prepared by Alicia Sorroza using figures from Eurostat's 'Structural Indicators'. Figures have been indexed to 100. Gross figures are as follows:

	IT Expenditure	R&D Expenditure	Female Unemployment Rate	Labour Productivity per Hour	Youth Educational Attainment	Greenhouse Emissions
Spain	1.5	1.03	46	87.2	62.5	133.7
EU	2.9	1.93	56.1	100	76.4	91.5

Spain's economic model may thus be showing signs of exhaustion. Key indicators related with a country's capacity to meet the challenges of an advanced information and knowledge society (Figure 9) are worrying: while Spain's research, development and innovation expenditure is at 53% of the EU average, the spread of information technologies is still quite low and the level of completion of secondary studies among Spanish youngsters is still 18 points below the EU average. Labour productivity is low (87% of the EU average) and female employment and activity rates are amongst the lowest in Europe.

It is in this domestic and international context that Spain's preoccupations concerning the next financial perspectives for 2007-13 have to be understood. A sudden and abrupt change from net beneficiary to net contributor to the budget, which (depending on the scenario) could entail a loss of between 0.5% and 0.9% of Spain's GDP, will no doubt make it more difficult for Spain to finalise its transition to full economic convergence with the EU and weaken its capacity to meet the goals of the Lisbon Agenda in order to increase productivity and competitiveness.

A hypothetical sudden loss of funds, together with the current delocalization pressures towards Central and Eastern Europe, the steady loss of competitiveness of Spanish firms resulting in a large trade deficit and the sluggish growth of productivity might well combine to produce a difficult situation for Spain. As argued elsewhere, this might not only have economic effects but also political ones if and when it triggers a negative reaction in Spain's public opinion.[19] In other founding member states, the combination of pressures due to economic globalisation and Eastern enlargement, coupled with the impact of immigration and increased contributions to the EU budget have eroded the traditional consensus on European affairs among key political parties and challenged and destabilised long established feelings of Europeanism among the public. Whether this will happen or not in Spain it is too soon to know. In any case, it seems evident that sea changes in the position of a member state within the EU, such as the one entailed in moving from the position of net contributor to net receiver, should take place progressively and be dealt with extreme care when presented to public opinion.

3. A Thorny Setting: The Negotiations for the 2007-13 Financial Perspectives

The negotiations about the 2007-13 financial perspectives are dominated by two elements: first, the effects of adding ten new members to the Union, all of which are below 75% of EU-15 average wealth; second, the long-lasting imbalances between net contributors and net receivers from the EU budget. As we will see, however, it is more in the second than in the first element where the problem originates.

In the EU-15, 46 regions out of 211 (NUTS-2 in official terminology) were below 75% of the EU's average per capita GDP. This meant that 66 million people, ie, approximately 17.5% of the EU's population lived in regions benefiting from Structural Funds. Ipeiros (Greece), at 51% of the EU average, marked the minimum and Inner London, at 242%, marked the maximum. In the new members and candidate countries of Central and Eastern Europe, however, 52 out of the 56 regions will be below 75% of the EU average, with Praha, at 124, setting the maximum and Nord-Est (Romania), at 18%, marking the minimum. Therefore, because of Eastern enlargement, the population living in regions below 75% of the EU-15 average has increased from 54 million (EU-15) to 123 million (EU-27).[20]

At the same time, enlargement has changed the basis on which calculations for the distribution of EU funds are made. This means that a good number of regions of EU member states will stop qualifying for Structural Funds just because of the statistical effects of enlargement (Figure 10). Therefore, the statistical effect of enlargement will not only affect Spain, but all other countries, Germany in particular, which will lose 83% of the population currently benefiting from Structural Funds.

Figure 10. Statistical effects of enlargement on EU-15 member states

	People affected by statistical effect of enlargement (in thousand)	% of national population	% of the population currently living in regions below 75%
Germany	10,625	12,9	83
Austria	278	3,4	100
Finland	684	13,2	100
Spain	2,318	5,8	16,4
Italy	604	1	3,4
Portugal	245	2,4	3,6
Belgium	1,724	16,8	100
UK	4,601	7,7	90,2

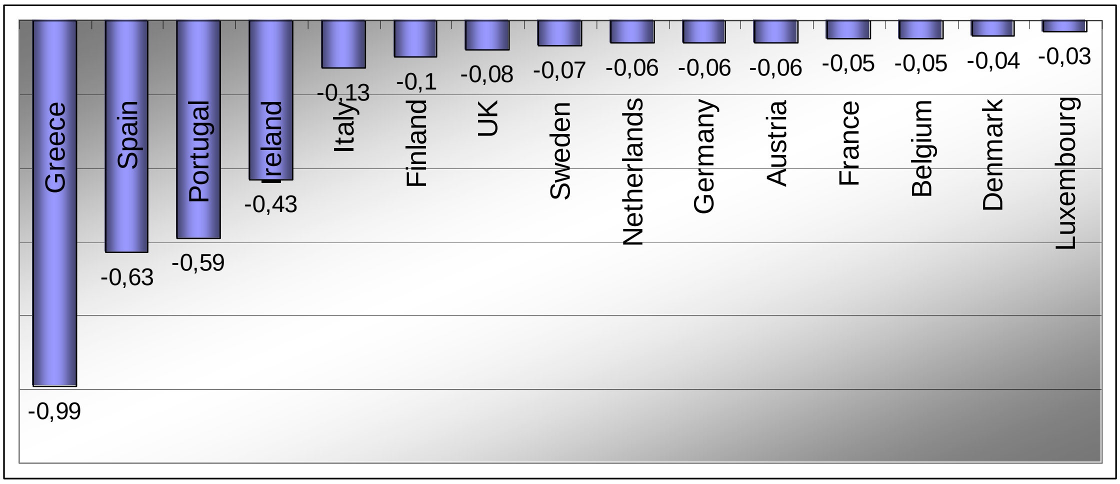
Note: Figures refer to Objetive 1 regions (ie, below 75% of EU-15 average income).
Source: I. Zubiri (2003), 'Los retos presupuestarios de la ampliación de la Unión Europea', Documentos de Trabajo de la Academia Europea de las Ciencias, Sección Española.

Will there be more money to meet the new needs? Clearly not. According to the Commission's proposals, there will be €338.7 billion (in 2004 prices) available for cohesion and employment policies over the 2007-13 period, a figure which represents 0.46% of the EU-25 GNI. Of this, €264 billion (78%) will be devoted to convergence, ie, regions below 75%, whereas the rest will be spent in goals like 'regional competitiveness and employment' or 'territorial cooperation'.[21] However, this represents a growth in cohesion policy of only 31.3% at a time when, due to enlargement, the population living in regions below the 75% mark has grown by 127%. All in all, in an enlarged Union with such cohesion needs, structural policies will consume no more than one third of the EU budget.[22]

The Commission has proposed allocating 52% of the funds to the new member states and 48% to the old. In principle this looks almost balanced, because there are 54 million people (44%) in the EU-15 and 69 million (56%) in the ten new member states living in regions below 75% of the EU average. Since disparities are much greater in the East (almost all regions are below 75% and a good number of them are below 50%), one should expect most money to go East. However, the combination of the size of the economies of these countries (scarcely 5% of EU-15 GDP) together with the setting of a ceiling of 4% of national GNI in the amounts which each country can receive from the EU budget makes it easy to calculate how much money would in the best case be allocated to Eastern Europe. In the most optimistic scenario, under a 1.24% ceiling proposed by the Commission, the new members could receive as much as €183,247 million. In practice however, it has been estimated that the Commission's proposals will not earmark more than €97,144 million for the ten new members, a figure which represents only 2.12% of their combined GDP.[23]

Therefore, the problem is not so much the costs of enlargement, which due to the combination of these two factors (small economies and a 4% ceiling on their absorbtion capacity) are relatively mild, but rather how these costs will be distributed if the Commission's proposals succeed. Figure 11 shows the percentage changes in terms of GDP which each member state would suffer as a consequence of enlargement. It is particularly revealing that all member states but the Cohesion Four (Spain, Portugal, Ireland and Greece) would see their balances practically unchanged under the Commission's proposals. In fact, the six net contributors (Germany, France, the UK, Netherlands and Sweden) come out particularly well off. All in all, the figures make evident that as things stand now, Eastern enlargement will be mostly financed by moving money from South to East.[24]

Figure 11. Share of enlargement costs according to the Commission's proposals (% of GDP)



Source: the author, based on FEF (2005), Table 9.

Still, enlargement alone cannot explain the tensions over the 2007-13 financial perspectives. Rather, one has to look at the imbalances within the budget at the EU-15 level to understand what is actually going on at the 25 level. And the explanation is relatively easy to understand. As economic stagnation in the Euro area has spread, the imbalances in the allocation of EU funds have become increasingly difficult to bear for those member states which contribute to the budget more than they benefit from it. The problem does not originate in contributions to the EU budget, which are roughly proportional to the size of each member state's economy, but in the size of the expenditure. Some countries, such as Spain, qualify to receive money in all the items (agriculture and structural policies) that make up the bulk of EU expenditure, while other countries –such as France– qualify only to receive money out of only one of the items (agriculture) and others –such as the UK– almost do not benefit at all from the EU budget.

Figure 12. EU-15 member states: budgetary balances, 2003

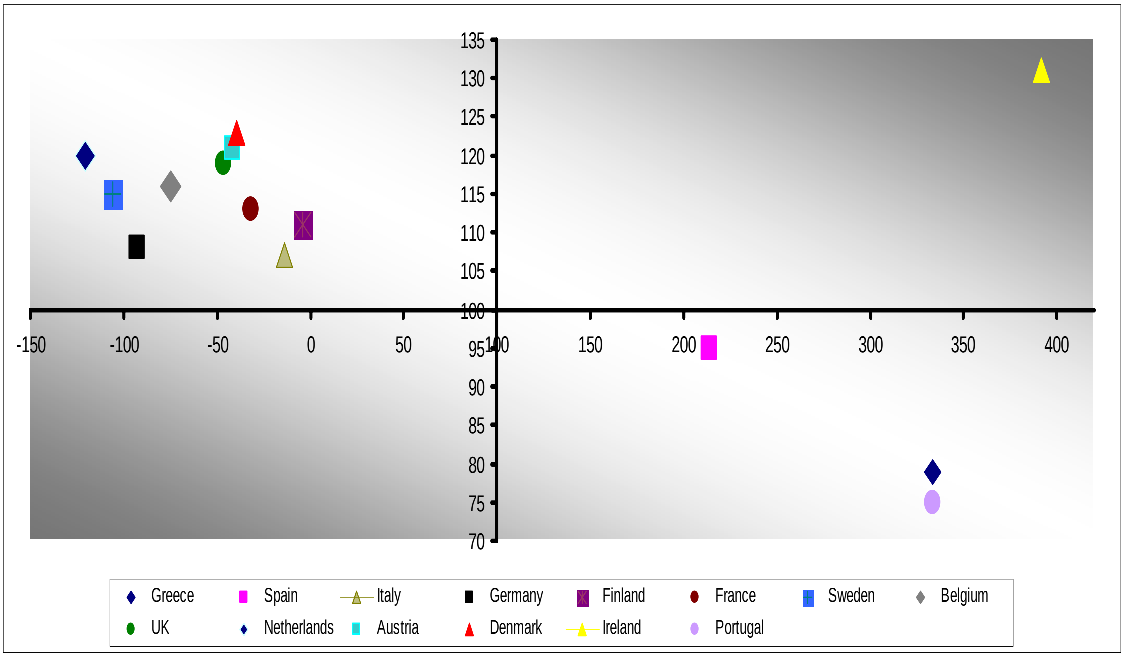
	€ Million	€ per head	Budgetary Balance (as a % of GDP)	Average GDP EU-25 = 100
Portugal	3,482	333.4	2.66	75
Greece	3,368.2	305.4	2.22	79
Spain	8,733.2	213.9	1,21	95
Italy	-793.6	-13.8	-0,06	107
Germany	-7,651.8	-92.7	-0.36	108
Finland	-20.7	-4	-0.01	111
France	-1,910.9	-32	-0,12	113
Sweden	-950.4	-106.1	-0,36	115
Belgium	-775.1	-74.7	-0,28	116
UK	-2,673.3	-46.5	-0.16	119
Netherlands	-1,956.1	-120,6	-0.43	120
Austria	-336.2	-41.6	-0,15	121
Denmark	-213.7	-39.6	-0,11	123
Ireland	1,564.6	391.7	1.4	131
Luxembourg	-48,6	-125,1	-0,24	208

Source: European Commission, Budget Allocation of Operational Expenditure by Member State, Sept. 2004, Table 5; Eurostat; *El Pais,* 8/IX/2004.

The result is that despite contributions to the budget being almost proportional to the size of each member state's economy, there are significant asymmetries in terms of how much each member state receives both in absolute and relative terms. Under a fair distribution of benefits, those who have the most should also pay the most, and those who have the least should also benefit most. However, one need not look very closely at the EU budget to see that the correlation between average wealth and average benefits from the EU budget is far from perfect.[25]

As Figure 13 shows, Germany, Sweden and the Netherlands contribute more than they should according to their GDP compared with Denmark, Austria, the UK, Belgium, France, Finland and Italy. Equally so, whereas Portugal and Greece's balances may well fit, Spain is better off than it should be, while Ireland should actually be placed exactly at the opposite side of the graph. Therefore, not all the problems are due to asymmetries between net contributors and net beneficiaries from the budget, but rather to the asymmetries among net contributors and, also, among net beneficiaries.[26]

Figure 13. Budgetary asymmetries in the EU



X axis: per capita benefits from EU budget.
Y axis: average per capita income EU-15.
Source: the author, based on the data shown in Figure 11.

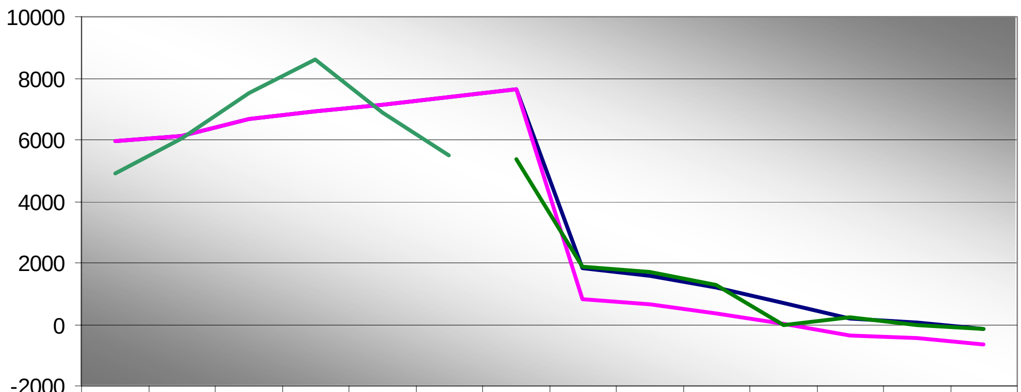
As a consequence, at a time of economic crisis and budgetary restraints induced by the Stability and Growth Pact, national governments have set their eyes on national contributions to the EU budget as tools for either reducing national budgets without incurring in electoral losses or as elements which could alleviate fiscal deficits from the pressure of the rules of the Stability and Growth Pact. Seen from the narrow perspective of the ministers of finance, it does not matter whether money returns to universities, regions or farmers in their own countries: what counts is the money that leaves and is counted as a deficit. Therefore, some member states have found it easier to control EU expenditures by capping contributions to the budget at 1% than by rationally reorganising how the budget is spent. The result is that countries which would benefit from higher EU expenditures in areas (such as R&D) in which their returns are higher than their contributions, would still insist on cutting down expenditures.

These imbalances, combined with enlargement, have led the net contributors to the EU budget (Germany, France, the UK, Netherlands, Austria and Sweden) to ally, both to reduce their contributions to the budget by capping the EU budget at 1% of EU-25 GNI and, at the same time, to exert pressure to stop the Community budget being used to finance cohesion expenditure in poor regions situated in rich countries. The existence of poor regions in rich countries, they have argued, cannot be the responsibility of the European Union, but of national governments. According to this vision, poor regions in rich countries reflect national failures for which the Community cannot bear responsibility.[27] As a consequence, they have demanded that cohesion and structural money should be entirely devoted to the poor regions of Central and Eastern Europe. The problem is that the plans which the six net contributors are drawing up are even costlier for Spain than the already worrying proposal stemming from the Commission.

4. The 1% Scenario

As we have seen, Spain's natural tendency is to contribute increasingly more and receive increasingly less. In fact, one need not wait for the next financial perspectives to see this effect taking place: 2004 and 2005 are already witnessing a deterioration in Spain's balance (in payments, not appropriations) because of rising contributions, to the extent that the Finance Ministry envisages that the 2006 net balance will be cut to €5,400 million. In other words, time is naturally placing Spain in the path of net contributions to the EU. The question is therefore not whether this will happen but when and how it will it happen.

Figure 14. The 1% scenario: comparison of losses (estimates)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1,24%	5946	6147	6675	6918	7123	7385	7662	1841	1600	1215	705	169	63	-167
1%	5946	6147	6675	6918	7123	7385	7662	821	634	353	1	-355	-461	-646
Lux Pres							5389	1883	1702	1276	0	239	0	-135
Payments	4900	6026	7531	8596	6904	5476								

Source: the author, based on MINECO estimates, actual payments and *El Pais,* 7/IV/2005, p.53; *El Pais,* 23/IV/2005, p. 59, is the source for the estimates of the impact of the Luxembourg Presidency's proposal.

Considering the troubles which the Commission's scenario anticipates, it is not difficult to imagine that the 1% ceiling scenario posed by the six net contributors will have consequences for Spain which will be very difficult, if not impossible, to bear, inevitably resulting in much tension, including a prolonged negotiating deadlock. Whereas, under the Commission's current proposal, Spain's Finance Ministry estimates that it would see its net balance with the EU reduced by 0.83% of its GDP, the 1% ceiling would mean increasing this loss to 0.91%. Equally, under the 1% ceiling proposed by the six net contributors, Spain would, again according to the Finance Ministry's estimates, suffer a sudden and abrupt loss of funds (from €7,662 millions in 2006 to €821 million in 2007) which would immediately turn Spain into a net payer (€-355 million in 2011 and €-646 million in 2013).[28]

The Spanish government is likely to resist this for political but also economic reasons. As we have said earlier, in contrast to other member states, Spain has not benefited and is not benefiting much from enlargement. Having placed most of its FDI in Latin America, it is suffering from increased competition from the East, both in terms of competition for FDI and for export markets. Spanish firms in key sectors, such as the automobile industry, are moving East and giving rise to a discourse of social dumping and unfair delocalisation. Therefore, Spain will resist having to bear alone the burden of enlargement when its contributions to the budget are steadily rising.

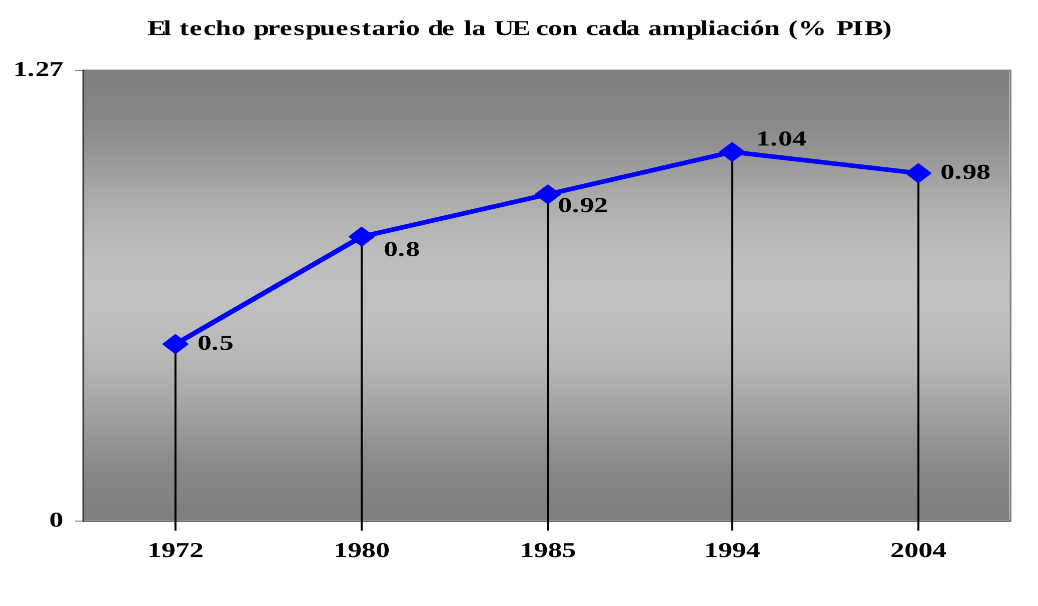
In particular, Spain will be led to question the justification of the British rebate. As the Commission has made public, the British national contribution in 2003 was of just €7,871 million, hardly more than Spain in real terms, but given the difference in population and GNI, this means that Spain pays twice as much as the UK.[29] The British rebate is currently at around €4.6 billion per year but the calculations of the European Commission show that it may well reach €7 billion by 2013. As a consequence, they highlight, the UK, now among the four biggest contributors, will end the next financial period paying less than France and Italy.[30]

Proposals on the table are asking for a generalised two thirds rebate for countries contributing more than 0.35% of their GNI, with a limit of €7.5 billion per year.[31] Spain currently contributes to the British cheque with €700 million per year, but the Commission's proposal (by setting the cheque at €7,500 million) could raise Spain's contribution to €1,000 million.[32] Therefore, it is highly unlikely that Spain would accept a substantial loss in its position without questioning the British right to keep the rebate and Spain's obligation to finance it.

But the overall issue is that asking the Spanish government to accept becoming a net contributor to the budget before having reached real convergence (at the EU-15 level) would amount to changing a status quo which is profoundly unsatisfactory for some member states for a new status quo which would be equally alienating for another set of member states. It seems evident that these negotiations have to lead to a budgetary situation which member states can consider fair and stable, and this could hardly be reached if there is not a minimum correspondence between average income and budgetary positions. Still, Spain does not oppose the 1% ceiling only in terms of national interest: its opposition is grounded on European interests as well.[33]

The question is how do we sustain the enlarged EU with reduced budgets? Figures are telling: when we look at actual payments, we see an EU budget which has been steadily decreasing over the past few years.[34]. Some argue that the EU needs more de-regulation and lower budgets. However, member states have increased their budgets by an average of 22.9% between 1996 and 2002, whereas the EU budget has only increased by 8.2%.[35]

Figure 15. EU actual budget ceilings before each enlargement (payments)



Source: C. Martín, J.A. Herce, S. Sosvilla, J.A. Velázquez (2003), 'La ampliación de la UE. Efectos sobre la economía de española', *Colección Estudios Económicos* Núm. 27, Servicio de Estudios de La Caixa, for 1972-1994 figures. Agence Europe, 07/IX/2004, for 2004 figures.

In fact, the record of Lisbon compliance, together with the row about the Bolkenstein directive leaves little ground for optimism concerning the political will to make the cake grow larger. If anything, the present budgetary quarrel proves how narrow the conception of the cost of benefits of membership has become. Why the EU budget has become so important is difficult to understand at first sight: compared with national budgets, the EU budget, currently at 1.14% of EU GNI, is only a fraction of what national governments spend (on average over 30% of their GDP).

As commentators have stressed, the very conservative approach to the EU budget currently prevailing in Europe means that it 'remains close to macroeconomic irrelevance'.[36] By focusing only on contributions, and not on goals and expenditures, EU member states are being distracted from addressing the real challenges before them. Though expenditure on growth and competitiveness is to almost double in the next financial perspectives (to 0.2% of EU GDP), it will still be outweighed by agricultural subsidies (at 0.34% of the EU's GDP).[37]

Moreover, as the Commission has frequently insisted, contributions and expenditures to and from the EU budget cannot be used to calculate the costs and benefits of EU membership.[38] In fact, compared with the figures of the internal market, the fiscal balances between member states pale. For example, Spain receives each year from the Cohesion Fund around €1.7 billion. This represents less money than what Spain imports from Germany in one month (€2.7 billion in March 2005). Actually, Spain runs a monthly trade deficit with the European Union (€1.7 billion) which equals the entire amount which Spain receives from the Cohesion Fund each year. Looking at Spain's trade balance with Germany, in March 2005 it ran a monthly trade deficit of €1.25 billion. Hence, Spain's net balance with the EU amounts to around six months of trade deficit with Germany.[39]

The figures of the EU budget also pale when compared with the volume of FDI. Spain, for example, might suffer a loss of around €6 billion per year in the most pessimistic budgetary scenario, but this is the amount of money which Spain's telecommunications leader, Telefónica, is willing to pay for CSKA, the Czech phone company, or approximately the same amount that Spain's BBVA has offered to pay for Italy's Banca Nazionale del Lavoro.[40] It is also close to the amount (€6.5 billion) which Spain's Telefónica paid across Europe in 2000 for the failed UMTS mobile phone licences, of which the Germany treasury, incidentally, received €4.7 billion and, revealingly, quite close to Spain's net balance with the EU in 2001 (€6.1 billion).[41]

5. Spain's Arguments and Strategies

As the close of the negotiations for the 2007-13 financial perspective approaches, Spain finds itself in a difficult position.

On the one hand, the impressive transformation of Spain's economy, together with the entry of new members which have pressing needs in terms of convergence and the poor economic situation prevailing in the Euro-zone, especially in France and Germany, which desperately need to improve their budgetary situation, make it crystal clear that the times have changed and that Spain should not look to the Edinburgh or Berlin Councils of 1992 and 1999 as its model for the negotiations.

On the other hand, while Spain accepts that its situation within the EU has changed and that, inevitably, this means less financing from the EU budget than in the past, it is seeking to ensure a smooth transition so as to avoid a sudden and abrupt loss of Structural and Cohesion Funds. Ultimately, while it understands the current economic problems which the European economies face, its goal is to avoid becoming a net contributor before it reaches full real convergence with the EU-15.

Although the country's position is often portrayed in terms of lack of solidarity and selfishness, Spain does not question the fact that those who need most should get most and that those who have most should give most. Actually, there is more to the Spanish position than the mere defence of its national interests. The capping of the EU budget at 1% means that the enlarged EU will be below the same budgetary ceiling as it had in 1985, before Portugal and Spain joined the Community. With agricultural expenditure already committed, we are talking about whether structural and cohesion policy deserve 0.14% more or less of the EU's GNI expenditure. Therefore, a good deal of the discussion around the budget is missing the target.

The key problem is that neither the Commission's proposal nor, in an aggravated form, the proposal of the six net contributors contain adequate phasing-out devices so as to avoid the dramatic change in Spain's financial position which the government fears. Moreover, in this struggle, Spain has not found many allies so far. Anticipating that they will soon be in the same situation, Portugal and Greece have sided with Spain. But despite the efforts to convince the new members from Central and Eastern Europe that the South and the East should work together to defend a fair and vigorous cohesion policy, the new members have hesitated to challenge those from whose money they hope to benefit.

On the institutional side, the situation is ambiguous: Spain coincides with the Commission and the European Parliament in keeping the expenditure ceiling as close to 1.24% as possible, but it has found little support for its proposals concerning how to have the budget reoriented to meet its particular needs. Finally, the successive Council Presidencies offer a mixed record: the Dutch, coming from a net contributor member state, showed little sympathy with Spain's proposals and Luxembourg, although it has circulated proposals aimed at bringing both parties closer, has so far had little success in this endeavour.[42]

Will it be possible to find an intermediate position both in terms of ceilings and the distribution of money to satisfy all the parties involved? This is what the negotiations are actually about. The Commission's proposal satisfies Spain as regards the ceilings and the overall philosophy, but Spain would like to see some of the items rearranged in order to ensure a smoother decline in its balance and more fairness and proportionality in the distribution of enlargement costs. With this in mind, the Spanish government is studying and circulating various proposals which aim to ensure a soft budgetary landing. The precedents are there: in 1985 the Eleven designed the Integrated Mediterranean Programmes of €3 billion at 1986 prices, aimed at compensating the French, Italian and Greek agricultural sectors from the impact of Spanish accession. Similarly, at the time of the Nordic enlargement of 1995, a temporal cash flow facility was devised so as to ensure a smooth phasing-in of the new members into a position of net contributors. More recently, the EU has also designed some temporary devices so as to cushion the effects of enlargement in the budgets of new members.

These alternatives do not aim to challenge the fact that by the end of the next financial perspective, Spain's budgetary relations with the Union will be balanced, when not in deficit. In other words, Spain accepts its fate: at the end of the day there should be no trauma in ceasing to qualify for Structural of Cohesion Funds. Leaving aside the fact that Spanish convergence has also occurred because of a statistical shortcut, the collective success behind Spain's trajectory is undeniable and should be a reason for joy. However, to prepare Spanish public opinion for this change, Spain needs both the next financial package to be based on principles which everybody can understand and share and that the process of the change of status itself takes place in a more gradual way, letting the combined effect of increased contributions and reduced receipts work together in a more natural and fair manner. Therefore, because Spain is not challenging the basic principles or asking for exceptions, its demands should be relatively easy to accommodate.

What possible negotiation strategies could Spain resort to? At first sight, the unanimity basis could grant Spain a foothold from which to build its way to a successful outcome. But there are certain limits to what unanimity and the threat of a veto can achieve on this occasion.

First, unanimity is ideal for those who want to preserve the status quo. However, in this case, a deadlock in the negotiations would not mean that the 2000-06 financial perspectives from which Spain has benefited so much will be repeated. Also, as unanimity works both ways, other countries might resort to parallel veto threats, which leaves all partners with identical bargaining power. Unanimity also helps those who gain from deadlock. But this is clearly not Spain's case because most of its expectations concerning the financial perspectives revolve around making the most of the EU budget in 2007-09. A lack of agreement leading to a protracted deadlock damages all member states, but because the Commission and the member states need time to programme access to EU funds, those who receive money will be especially hurt, while those who pay will probably save money. Therefore, a better agreement reached in June 2006 might be less satisfactory than a worse agreement reached in June of this year.[43]

Second, although in theory the unanimity basis which Spain so preciously preserved in the Nice Treaty equalises all member states, in practice it is evident that when it comes to budgetary negotiations those who contribute have more bargaining power than those who receive. Moreover, in this particular case, due to its better economic situation, especially compared with France or Germany, but also given the imbalances and asymmetries presiding the current distribution of funds in the EU budget, Spain lacks the legitimacy to force other countries to continue financing Spain's structural and cohesion needs for as long as it would want to. Therefore, since Spain needs the agreement of the net contributors, the new members and the Commission in order to reach its goals, a strategy of sheer intransigence and open threats may well miss the target. This leaves Spain with no other option than to engage in an intensive and extensive exercise of both arguing and bargaining. Spain has no other option than to strategically combine the use of principles widely accepted at the EU level together with a solid set of arguments in order to persuade key member states of the validity of its arguments concerning its fears of a sudden and abrupt loss of funds and its implications.

This is in fact what the strategy of the so-called 'Spanish problem' is about: to persuade other member states of the righteousness of Spanish arguments and, therefore, of the need for them to make a supplementary effort to accommodate Spain's legitimate interests. In the past, eg, during institutional negotiations, Spain successfully employed this tactic of constructing its position as a special case which deserved special treatment. In principle, this does not represent a problem. We know from negotiation theory that self-serving arguments may be used to strengthen one's negotiating stance if and when their factual and normative validity is accepted, ie, when the facts and figures used to justify one's claim are empirically true and the principles called into question are also considered fair and applicable to the case.

However, being factually and normatively right is a necessary condition, but not a sufficient one for success in these negotiations. The sufficient condition for success is that one's claims be accepted as fair, both factually and normatively, by the others. As Axel Moberg ironically noted about Spain in the context of the Nice Treaty negotiations, 'we never understood what was so special about the special Spanish case', In other words, it helps very little to be right if others do to accept that one is right.[44]

Therefore the challenge is to create both the sufficient and the necessary conditions for success. But in a context marked by figures which might have different readings and principles ('proportionality', 'fairness' and 'solidarity'), which are too general to be translated into actual figures, this implies an excessively complex, uncertain and unpredictable mix and the juggling of rhetoric, arguments, principles, precedents, analogies, facts, counterfactuals, give and take and, when necessary, threats to walk away from the negotiation table.

How will all these elements will combine to produce a result is difficult to say: over the preceding pages, we have presented the basic facts and arguments on which the Spanish position rests. One preliminary conclusion is that in this particular case, trying to convince EU members about the existence of a specific 'Spanish problem' might not be enough if it is not accompanied by an equivalent effort to understand and solve the particular problems of others, especially the complex 'German problem' which entails not only objective economic and budgetary arguments but subjective and psychological ones that have quite evidently already generated a 'donor's fatigue' syndrome.

As things stand now, two trains, Spain and Germany, are slowly heading against each other. An alternative way out which would help avoid a very damaging head-on collision between Germany and Spain, and the ensuing deadlock over a much needed EU budget, is urgently needed. At first sight, the more Spain accommodates others' legitimate claims into its negotiation preferences, the more likely it seems that the others will reciprocate and do so with its legitimate claims. This means taking, but also giving, both economically and psychologically. At the current stage this seems the only way to expand the winning set and ensure that all countries can, if not win, rationally minimise and distribute their losses over the 2007-13 period. But after all, as it has frequently been said in the context of transatlantic disagreements, 'it takes two to tango'. We shall see.

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[1] An earlier version of this paper was presented at a 'Seminar on the State of the Negotiations of the Financial Perspective of the European Union – Agenda 2007', at the *Stiftung Wissenschaft und Politik* (SWP) in Berlin on April 18, 2005. I thank all the participants for their comments and suggestions.
[2] For an assessment of the October 2002 agreement on CAP expenditure, see J.I. Torreblanca, 'Las claves de un acuerdo sorpresa', Real Instituto Elcano, ARI, 28/VIII/2002, available at *http://www.realinstitutoelcano.org/analisis/132.asp*
[3] Figures from S. Sosvilla and J.A. Herce, 'La política de cohesión europea y la economía española: evaluación y prospectiva', Real Instituto Elcano, Documento de Trabajo 52/2004, available at *http://www.realinstitutoelcano.org/documentos/141.asp*. Spain's Finance Ministry (MINECO) estimates Spain's benefits from the Cohesion Fund in 2000-06 at €11.6 billion. Differences are due to reference prices (current or constant) and estimates for 2005-06 (appropriations or payments).
[4] Figures from Eurostat, 'GDP per Capita in Purchasing Power Standards for EU Candidate Countries and EFTA, Nowcast 2003', *Statistics in Focus, Economy and Finance*, 27/2004.
[5] There has been some uncertainty about whether Galicia would remain below 75% during the next 2007-13 financial perspectives. After a certain amount of push and pull between Spain and the European Commission concerning the basis for population calculations, Galicia's average per capita GDP between 2000-03 has been estimated at 73.35%, thus allowing the region to qualify for Structural Funds along with Andalucía and Extremadura. See *El País*, 8/IV/2005, p.65.
[6] Figures differ, albeit slightly, depending on whether current or constant prices are used. Government estimates place at €61,890 million the value of the Structural and Cohesion Funds received by Spain between 2000-06 and calculate that this amount will be reduced to €34,468 million in 2007-13 (A. Navarro and E. Viguera, *Las perspectives financieras 2007-2013 y la posición de España*, Real Instituto Elcano, Documento de Trabajo, 17/2005).
[7] GNI-based contributions have more than doubled in five years, rising from €2.6 billion to €6.58 billion between 2000 and 2005. This means that Spain's contribution, which in 1998 represented 6.8% of the EU budget, has substantially risen over the past few years, to the current 9.2% of the EU budget. Figures from Spain's Finance Ministry, 'Annual Budget 2005' and *El País*, 29IX/2004, p. 68 ('Suben las aportaciones de España a la UE y disminuyen los fondos recibidos de Bruselas'). See also the Hearing before the Spanish Senate of Finance Minister, Mr Solbes, on 24-11-2004. 'Interpelación sobre los principios y objetivos que va a defender el Gobierno en el proceso de negociación de las perspectivas financieras de la Unión Europea para el periodo 2007-2013', Mimeo, available at the Spanish Permament Representation to the European Union (*http://www.es-ue.org/*).
[8] Figures from Fundación de Estudios Financieros (FEF) (2005), 'España y las nuevas perspectivas financieras de la Unión Europea 2007-2013: Nuevos condicionantes, nuevos objetivos, nuevas estrategias', available at *http://www.fef.es/z_contenido/p11_fef.zip*.
[9] Please note, however, that the State Secretary for Economic Affairs has unofficially circulated figures which estimate a net balance in 2007-13 that is much lower for Spain. The figures are (in € millions): 2007, 331; 2008, 47; 2009, -385; 2010, -943; 2011, -1,528; 2012, -1,682; and 2013, -1,966). Figures are presumably based on assumptions on payments rather than appropriations and a 1% expenditure ceiling.
[10] 'España comunica al Ecofin que el proyecto presupuestario de la UE es inaceptable', *El Pais*, 13/IV/2005, p.60.
[11] Estimates by FEF (2005) coincide in setting at €42 billion the net loss for Spain of the change from 2000-06 to 2007-13 under the current Commission's proposals (the breakdown is basically similar: €25 billion less in EU expenditure in Spain and €17 billion more in increased contributions).

[12] 'Zapatero admite que una caída brusca de ayudas de la UE complicaría sus objetivos económicos', *El Mundo*, 22/IV/2005.
[13] Figures from *Fundación de Estudios Financieros* (FEF) (2005), Table 1.
[14] Spain's contribution to the budget is split in the following way: of the €10.1 billion which Spain will contribute to the EU budget in 2005, the fourth item (GNI based) amounts to €6.58 billion (65%), whereas VAT-based resources total €1.91 billion and traditional own resources €1.07 billion. Source: MINECO.
[15] Figures from FEF (2005), *op. cit.*, Table 1. Note however that of the four Cohesion countries, Spain is the country that receives the least in relative terms. Greece receives 2.39% of its GDP in EU budgetary transfers, whereas Portugal receives 2.14 and Ireland 1.5%.
[16] Sosvilla and Herce, *op. cit.*; FEF (2005), *op.cit.*, Tables 1, 2, 3.
[17] C. Martín and J. Turrión (2003), 'El impacto de la ampliación de la Unión Europea en el comercio y en los flujos migratorios y de inversión directa de España', *Documentos de Trabajo de la Academia Europea de Ciencias*, Delegación Española, p. 31. See also C. Martín, J.A. Herce, S. Sosvilla, J.A. Velázquez (2003), 'La ampliación de la UE. Efectos sobre la economía de española', *Colección Estudios Económicos*, núm. 27, Servicio de Estudios de La Caixa.
[18] See *El País*, 16/III/2005; study by J. Gual of IESE cited in *El País*, 25/IV/2005 ('El 15% de la industria está amenazada de traslado al Este', p.79).
[19] J.I. Torreblanca, 'Out-of-pocket Spaniards May Turn Their Backs to Europe', *European Voice*, 14-20 April, vol. 11, nr. 14, p. 8.
[20] *Eurostat News Release*, 13/2002, 29/I/2002, 'Regional per Capita GDP in the EU and Candidate Countries in 1999'.
[21] European Commission IP/05/389 of 6 April 2005. €264 billion (78%) will go to Convergence (<75%); €57.9 billion (17.1%) to competitiveness and employment; and €14.3 billion (4.2%) to cross-border cooperation. See the earlier proposal in European Commission, IP/04/925 of 15 July 2004, 'Construir nuestro futuro común: retos políticos y medios presupuestarios en la Unión ampliada', COM (2004) 101f, 10/II/2004.
[22] C. Serrano, B. Montoro and E. Viguera, 'Perspectivas financieras 2007-2013: Las nuevas prioridades de la Unión Europea y sus implicaciones en la política regional', Instituto de Estudios Europeos – CEU, Observatorio de Economía Europea, Documento de Trabajo, 2/2004.
[23] Figures from FEF (2005), *op. cit*., Table 9.
[24] FEF (2005), *op. cit*., Table 9, estimates that the cost of Commission's proposals to Spain (€-15.9 billion when comparing payments from the EU budget in the two periods) would add up to 0.63% of Spain's GDP. MINECO estimates that the combined effects of increased contributions and decreased payments would represent a loss of operating balance equivalent to 0.83% of Spain's GDP when comparing the 2000-06 and 2007-13 financial perspectives. S. Sosvilla and J.A. Herce (2004) estimate losses to be between 0.40 and 0.56% of Spain's GDP (depending on the scenario, mild or harsh); Zubiri (2004) estimates the cost of the Commission's proposals at between 0.63% and 0.71% depending on the year (€3.5 billion in 2007 and €3.99 billion in 2013).
[25] See C. Blankart and C. Kirchner (2004), 'Deadlock of the EU Budget', in C. Blankart and D. Mueller (eds), 'A Constitution for the European Union', MIT Press, Cambridge, Mass., pp.109-138.
[26] An important element in determining access to EU funds is, unexpectedly, the country's size, rather than its per capita level. Contrary to common interpretations that Spain gets the most, data show that small countries tend to receive more than large countries and to pay more than large countries. See the study by C. Martin and I. Sanz, 'Las consecuencias de la ampliación para la política regional europea', Academia Europea de las Artes y las Ciencias, Delegación Española, p.21.
[27] See Phedon Nicolaides, 'National "Red Lines" Undermine European Budgetary Reform', EIPASCOPE, 2005/1.
[28] Gervasio Cordero has estimated the cost for Spain of the Dutch Proposals for a 1% budgetary ceiling to be of €37.8 billion. This would be the difference between the Structural and Cohesion money received between 2000-06 (€57 billion at 1999 prices) and what the Dutch proposal would allocate to Spain (€19.1 billion at 1999 prices) for the period 2007-13. See G. Cordero, 'El futuro de la política regional europea después de la próxima ampliación: el estado del debate', Mimeo.
[29] Agence Europe, 07/IX/2004.
[30] 'The Battle of the Budget', *Economist.com*, 3/III/2005; *Newropeans* Magazine, 'EU budget and the UK rebate: How to cut the cake fairly', by Elodie Boussonnière, 4IV/2005.
[31] European Commission, 'Financing the European Union', COM (2004) 505 final/2, vol. I, 6/IX/2004, *EU Observer*, 14/VII/2004.
[32] Figures from Finance Minister, Mr. Solbes, speaking at the Spanish Senate on 24/XI/2004.
[33] See the harsh statement issued by President Prodi after having received the letter of the six contributors asking for the capping of the EU budget at 1%: 'Miracles are not my speciality… I wonder whether this is a

reflection of the kind of level of responsibility that these member states actually want that the Union of 25 achieves'.

[34] In terms of operating expenditures, in 1996, the EU was at 1.14% of its GDP and today it is placed at 0.98% (*Agence Europe*, 07/IX/2004). See also European Parliament 1999-2004, Working Document No. 8 DT 516940EN.doc, 'Appraisal of the financial perspective 1988-2006', Report 9/XII/2003, Figure X.

[35] 'Budgeting for an enlarged Union', European Parliament, Background Information, 6/II/2004, Annex: 'Increases in government and EU expenditure 1996-2002'.

[36] Guillaume Durand, 'Putting EU Finances in Perspective', The European Policy Centre, Commentary / 2004.

[37] Iain Begg, 'The EU Budget: Common Future or Stuck in the Past', Centre for European Reform. Briefing Note, 1004.

[38] European Commission, 'The Concept and Measure of the Budgetary Balance', 7/X/1998, Annex 3.

[39] Another revealing figure, the EU budget for 2004 stood at €100 billion, but Spain's trade deficit with the world was €51.84 billion, EPS 27/04/2005, p.58.

[40] 'El Consejo del BNL acepta la oferta del BBVA', *El País,* 08/IV/2005.

[41] 'Telefonica se resigna a perder licencias de UMTS que le costaron 6.500 millones', *El País,* 16/VIII/2004, p.59.

[42] 'Berlín y Paris aceptan que se compense a España por la pérdida de fondos europeos', *El País,* 1/II/2005, p.54; 'La UE asume la exigencia de España de recibir el Fondo de Cohesión dos años más', *El País,* 23/IV/2005, p. 59; 'Moratinos aprecia cambio conceptual respecto al problema español', EFE, 25/IV/2005; 'Los países ricos se oponen a que la UE amplíe el fondo de cohesión para España', *El País,* 26/VIV/2005, p.52; La UE mantendrá la prórroga del Fondo de Cohesión', *El País,* 27/IV/2005.

[43] As Daly Grybauskaite, EU Budget Commissioner, has reminded, in 1999 the late agreement on the 2000-06 perspectives meant that most of the EU's aid in the form of structural funds was received by member states only at the end of 2002 instead of in 2000 (*EUobserver.com*, 7/IV/2005).

[44] A. Moberg (2002), 'The Nice Treaty and Voting Rules in the Council', *Journal of Common Market Studies*, vol. 40, nr. 2, pp.259-282.