Elemér Terták[1]

About the Financial Perspective of the European Union for the years 2007–2013

The future should not be foreseen, but made possible.
Antoine de Saint-Exupéry[2]

The development of the budget policy of the European Union have been characterised by recurrent fierce debates and disagreements in the past few decades. The rows about the distribution of powers between the Council and the Parliament were accompanied by the often deep dissention about the equitable distribution of the burden among the member states. Based on the experience gained from these debates, the players developed rules and procedures that could not prevent the debates, however maintained the financial capacity of the EU. At the same time, however, the system has become incomprehensibly complex for outsiders. The enlargement carried out in May 2004 and the further, already decided enlargement of the EU pose new challenges for the community budget. The additional costs incurred due to the integration of less developed countries accentuate the distribution related debates among the member states and interest groups of the European Union. The situation is aggravated by the fact that keeping indebtedness under control has become more difficult even for wealthier member states due to the sluggish economic growth and the ageing population, wherefore the increase of community contributions seems to be an unbearable load. An agreement on Agenda 2007, i.e. the financial perspective for the period 2007–2013 must be reached amongst such conditions.

In my article I intend to present the rough road leading to the approval of the new financial perspective, and at the same time I wish to contribute to reducing the general lack of information about the community budget. According to the Eurobarometer survey conducted last autumn, the Hungarian respondents named the administrative and personal costs as the area that receives the largest share from the EU budget. In reality, the biggest chunk of the EU's budgetary expenditures is steered into the farming sector. The administrative costs were considerably overestimated by the respondents, since they only account for six per cent of the budget.

And at last but not least, the article intends to find a reply to the question as per what should be inevitably avoided, and where should much greater forces be focused in order that Hungary could maintain, or, possibly increase its role in the region, which itself undergoes great changes. It seems sure: the next wave of the EU enlargement, and the accession of the Balkans with a population of 15 million sooner or later will definitely change our position in the EU. Hungary must make the best of the coming seven-year period in order to win a stable position in the European Union based on thoroughly elaborated strategies and development concepts. In addition, I provide a review about

issues on which we must take a stand during the preparation of the next financial perspective.

ON THE BUDGET OF THE EUROPEAN UNION

One of the basic objectives of the Treaty of Rome is the establishment of an economic and political union among the nations of Europe. For this purpose, the member states must gradually delegate certain tasks and activities and the related powers to the EU. For the implementation of the common objectives common policies must be developed and the related costs must be shared. Similarly to the national budgets, funding of the community budget also means the regrouping of incomes, in this case from the national to the supranational level.

The possibility of having direct (own) sources of income was already incorporated into the budget of the European Coal and Steel Community, at an early stage of the history of European integration. However, up until 1970, expenses were only paid from contributions made by the member states. The Community increasingly sought to generate own resources bypassing the national budgets of the member states, and thus increase its autonomy. Naturally, the term "own revenue" is a euphemism, since the European Union cannot raise autonomous revenue based on the right to levy taxes.

In the beginning, the direct sources of revenue of the European Economic Community were customs revenues from trading with third-party countries and agricultural levies. However, since the 1970s own revenues have not been sufficient to cover the expenses of the community, wherefore the so called VAT-based contribution was introduced. As a result of the further growth of expenses, in 1988 a decision was passed about the introduction of a fourth type of resource, which is the so called gross national income (GNI[3])based resource.

Resources

For the time being, the common budget of the EU can rely on four types of own resources:

❶ agricultural levies (i.e. the difference between the prices of agricultural products on the world market and the subsidised prices within the Community, which is a sort of "mobile" customs duty),

❷ customs duties on goods imported from countries outside the Community,

❸ a certain percentage of the value added tax (VAT) base, and

❹ the fourth resource, which supplements the former three resources, is the contribution paid by the member states proportionately to their gross national incomes (GNI).

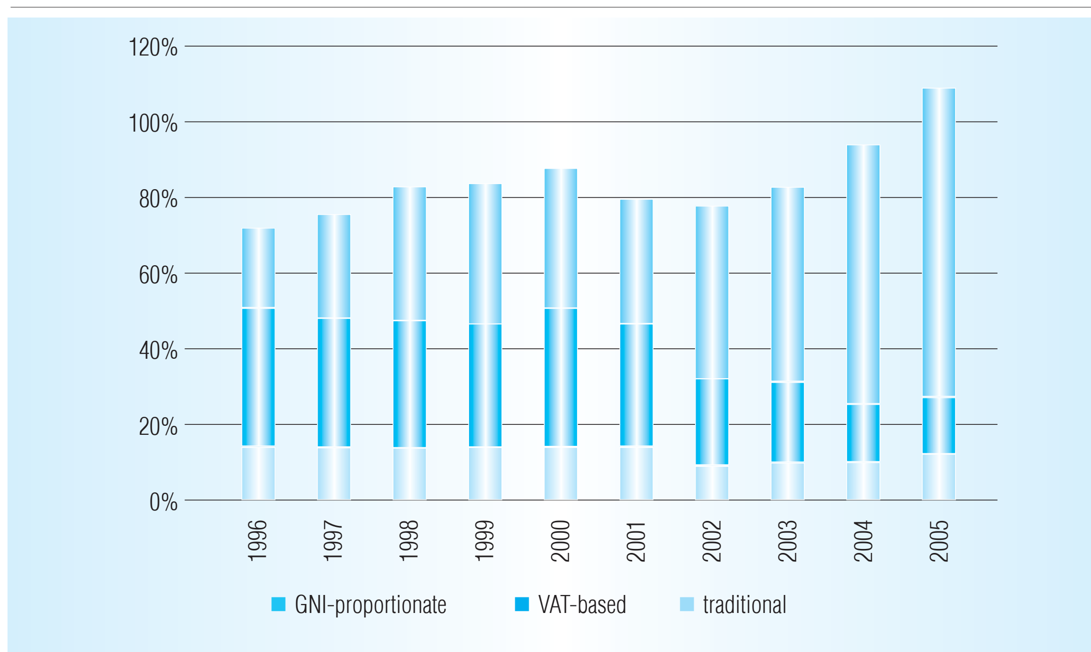
The member states must pay maximum 1.27 per cent of their GNI to the EU collectively under the four legal titles.

Apart from the above mentioned sources, revenues are raised from a few less significant resources, too: from the tax payments of EU officials, from the corporate fines levied by the European Commission and from surpluses carried forward from the previous year. *(See Figure 1)*

From time to time the idea of introducing an independent European tax is raised as an alternative for the above mentioned funding resources. The proponents expect that this would enhance the financial independence of the EU, and the transparency of expenses related to the activities of the EU. However, the opponents fear that if the EU would acquire the right to impose taxes, the already high tax burden would further increase, and they point out: the political debates erupt primarily in connection with the expenditure side of the budget, i.e. a new source of revenue would not halt them. However, since the realisation of such a reform requires unanimous approval by the member states, one can hardly expect the introduction of a European tax in the foreseeable future.

Figure 1

THE STRUCTURE OF REVENUE RESOURCES IN THE EU BETWEEN 1996 AND 2005



The decision passed in year 2000 about own resources resulted in a few minor reforms. The modification of the rate of VAT based resources in 2004 reduced the significance of this resource by half, or to 0.5%. As far as the traditional resources are concerned, cost reimbursement for collection grew from the former 10% to 25%. (However, this does not mean a large concession for the member states due to the reduction of the customs tariffs). The system of British rebate[4] also underwent minor changes: certain technical corrections prevented the United Kingdom from capitalising on the enlargement through the former practice of automatism. On the other hand, the four largest net contributors (Germany, the Netherlands, Sweden and Austria) were granted some concessions in funding the British rebate versus the other member states. In 2001, the gross sum of the common budget totalled EUR 92.6 billion on the expenditure side, which accounted for 1.08% of the Community's GNI.

In 2001, each citizen of the EU paid on average EUR 214 to the budget. The highest amount was paid by the citizens of Luxembourg (EUR 583 per capita), while Greece and Portugal contributed EUR 126 and 128, respectively per head. The biggest portion of budgetary revenues came from the fourth, the GNI based resource (37.5%). The share of VAT-based revenues was similar (33%), while agricultural and sugar levies accounted for merely 2.1%, and the customs duties imposed on imports from third countries equalled nearly 15%.

The introduction of the financial perspective

The tool of financial perspective (outlook) was introduced in 1988. The precedent was that the Council asked *Jacques Delors*[5], the then president of the Commission to submit a report on the financial standing of the EU at the London meeting to be held in December 1986. The admission of Spain and Portugal at the beginning of that year led to significant additional spending from the structural funds, and the prices for agricultural products on the world market threatened

that the maintenance of the common agricultural policy in the original form would trigger payments without coverage in 1987.

Delors hoped that unless the member states wanted to make rich regions even richer and the poor ones even poorer, his proposals would be evaluated based on the realised need for increased solidarity (cohesion). In addition, he took into account the fact that the Single European Act, which was approved in 1986, earmarked that the community should assume greater responsibility in certain fields, such as research, which evidently requires more funds from the budget. In his proposal he initiated the doubling of the structural funds in five years, the increase of the research appropriations, measures to handle superfluous agricultural products, as well as the elaboration of a new framework for establishing the EU budget that determines the sum and ratio of the major expenditure items for five years ahead ("financial perspective").

The proposals were received rather differently by the member states. The German government was not pleased by the potential increase of net payments, which resulted from the enlargement of the structural funds, while *Margaret Thatcher's* government called for a tighter control over CAP spendings and all expenditures in general. No agreement was reached by the end of 1987, wherefore an extraordinary Council meeting had to be convened in February 1988.

At the extraordinary Council Meeting in Brussels the crisis was avoided by extending the deadline for the doubling of the structural funds from five to six years, by creating a new own resource based on GNI-proportionate payments, a Directive designed to restrict of the growth of expenditures under the common agricultural policy[6], and in that the volume of the budget would not exceed 1.2% of the GNI by 1992. Finally, the proposal regarding the medium-term budgetary planning was approved and it was agreed that the financial perspective would be reviewed in 1992.

The community expenditures are approved by establishing the annual budgets, in which the expenditures of the different policies are earmarked. The preparation of a medium term perspective is important since the implementation of many policies takes several years, wherefore framework conditions consistent with the programs must be created for the budgets of subsequent years. The financial perspective is a sort of a planning aid, for the elaboration of the annual budgets within the period. On one hand, the financial perspective sets the ceiling for expenditures, and the structure of the expenditures by determining the appropriations of the individual legal titles on the other. Within the framework of an Interinstitutional Agreement of May 6, 1999 between the Commission, the Parliament and the Council on budgetary discipline and improvement of the budgetary procedure the Commission, the Parliament and the Council universally undertook to abide by the approved limits in the period of the perspective. The establishment of the limit mandatory for all three institutions has proved to be very useful in the past 18 years: it contributed to the prevention of crises that formerly routinely reoccurred during the establishment of the annual budgets. These crises primarily erupted due to the debates on powers between the Council and the Parliament: since 1975, the right to establish the budget has been divided between the two institutions: in relation to the so called mandatory expenditures (expenses incurred for the completion of tasks arising from the Treaty or secondary legislation derived therefrom) the decision is in the hands of the Council. In contrast with this, the final decision lies with the Parliament in the case of non-mandatory tasks. While the common agricultural policy is a mandatory task, structural and regional policies are regarded as non-mandatory tasks. Since the division of the tasks into these two groups is rather arbitrary, the decision-making competence is evidently a source of fierce debates.

The tension is further aggravated by the Parliament's regularly manifested intention to use its budgetary rights in connection with non-mandatory tasks to achieve a greater influence on community policies. Although the above-mentioned fault-lines did not disappear upon the introduction of the financial perspective instrument, the dissents considerably diminished during the establishment of the annual budget.

This means that the appropriations of the financial perspective determine the weight of the individual legal titles of expenditure. Due to its weight, the most significant one is the agricultural policy. Nearly 43% of the expenditure is channelled into this area. This is followed by the structural policy with 34%. Internal policies (including the most significant area. i.e. research) have a share of 7.4%, while 9% is allocated for external policies and equalisation for the new member states. As much as 0.4% is spent on reserve formation and 6% on administrative tasks.

The Commission's ideas related to the financial perspective for years 2000 to 2006 were published in a document titled Agenda 2000 in July 1997. The material concluded that the inevitable reform of a few community policies could be implemented and the additional costs arising from the first wave of enlargement could be covered without increasing the 1.27% budget ceiling. The more detailed calculations that were published in 1998 envisaged an annual growth of 2.5% in the EU-15 and a 4% growth in the new member states. The frameworks of Agenda 2000 were agreed upon at the Council Meeting held in Berlin in March 1999. The agreement was based on the fact that in the first wave of enlargement six new member states would join the EU, and the budget would be increased by 18.6% by 2006 in order to cover the additional costs arising from the enlargement (pre-accession resources, growing agricultural and structural fund spending). The resources earmarked for the enlargement were “frozen”, i.e. they were made inaccessible for the 15 member states.

As we could see, the bitterest arguments in the European Union have always been about money. That is partly because the budget is inherently a zero-sum game: more for one country means less for others. But it is also because, although the budget is small (just over 1 per cent of EU GNI, equivalent to 2 per cent of EU-wide public spending), the gross sum is still significant compared to the budgets of the individual member states.

THE BIRTH OF THE NEW FINANCIAL PERSPECTIVE

The fourth financial perspective of the community, which comes after Delors I (1988–1992), Delors II (1993–1999), as well as Agenda 2000 (2000–2006) spans the period from 2007 to 2013, and is called Agenda 2007. As time went by, it became increasingly urgent to reach an agreement on the financial framework conditions of the next period, especially because it could be foreseen that firm negotiations would have to be conducted in order to reach an agreement.

The difficulties that had to be bridged stemmed from several sources. In the past years the European Union assumed many new tasks in the fields of the preservation and enhancement of internal security – such as the control of the external borders, certain subfields of asylum and migration matters –, as well as foreign policy. On the other hand, the accession of ten countries in 2004, and the planned admission of Bulgaria and Romania in 2007 posed new challenges in the field of the traditional policies: the conservation of the former subsidy policies would have entailed a rapid growth of the budget of the common agricultural policy and that of the structural and regional policies. But tensions appeared

Table 1

NET PAYERS, NET BENEFICIARIES AND THE LIVING STANDARDS (2003)

	Total net position (EUR million)	Net posítion as a percentage of the GDP	Per capita GDP at purchasing power parity (EU–15 = 100)
Luxembourg	–56.2	–0.28	196.7
Ireland	1564.6	1.40	121.3
Denmark	–213.7	–0.11	112.4
Austria	–336.2	–0.15	112.0
Nethelands	–1956.1	–0.43	110.8
United Kingdom	–2763.3	–0.16	108.6
Belgium	–775.1	–0.28	107.9
Sweden	–950.4	–0.36	105.5
Finland	–20.7	–0.01	103.5
France	–1910.9	–0.12	101.6
Germany	–7651.8	–0.36	99.0
Italy	–793.6	–0.06	97.9
Spain	8733.2	1.21	89.6
Greece	3368.2	2.22	74.1
Portugal	3482.0	2.66	68.1

Source: European Commission, Eurostat

between the old member states, too. Germany, the Netherlands and Sweden believed that they bore an unproportionately large share of community financing, while the beneficiary countries strove to continue the financial policy which was beneficial for them. The debate focused on the concept of the net position. The net position is the balance of payments made to the community and received from the EU in the form of subsidies. Although the net position shows some methodological weaknesses in terms of establishing the level of the beneficiary status, it more or less indicates the distribution of burden among the member states. The member states carrying the bulk of the burden had all the right to object to the fact that similarly developed (or sometimes even more developed) countries had a smaller share of the burden of redistribution to the benefit of less developed countries. *(See Table 1)*

The table lists the old member states in a decreasing order of per capita GDP. It presents the net position in terms of absolute sums as well as in comparison to the national GDP. As it can be seen, the Netherlands, Germany and Sweden contribute to the community revenues with the largest GDP proportionate amounts. This ratio can hardly be derived from the achieved high living standards, since certain wealthier member states contribute less to community expenses proportionately to their GDP. What is more, Ireland even obtains net revenues. The significant differences mostly stem from the Union's structure of expenditure: those countries get into a less advantageous position that enjoy the benefits of support-intensive agricultural and structural policies to a smaller extent due to their endowments. What is more, several member states in this latter group struggle for the consolidation of their own budgets, wherefore they understandably made all efforts to curb or cut back their expenses, including their contributions to the community budget.

Battle lines

For the above reason the battle lines over the budget were drawn even before the European Commission made its own proposal for the next financial perspective. In December 2003, the six biggest net contributors to the budget (Germany, Great Britain, France, the Netherlands, Sweden and Austria) demanded that the budget be held below one per cent of the EU GNI, despite the imminent arrival of ten new member states – including Hungary –, and the likely accession of two other countries at the beginning of the new "financial perspective" period. The joint initiative of the six countries was hardly sufficient to conceal the major clashes of interests that existed even among these six countries. For example, Great Britain has a vested interest in retaining the current rebate, and France insists on maintaining the current system of agricultural subsidies due to the importance of the agricultural sector in its national economy. The net contributors' ability to enforce their interests is further weakened by the fact that conflicts of interests arise even within certain countries. For instance, at federal level Germany would be interested in curbing regional subsidies, however the east German provinces are striving for maintaining the current intensity of support.

In its proposal submitted in 2004 the Commission called for the increase of the budget, claiming that the upper limits of commitments and contributions should be set at least at 1.24% of the GNI and 1.14% of the GNI, respectively, i.e. at EUR 929 billion. The Commission claimed that a credible program facing the new challenges of the EU can be developed only with that budget. On similar grounds, the Parliament believed that a gross sum of EUR 975 billion, i.e. 5% more than that proposed by the Commission would be necessary for the seven-year period beginning in 2007.

The proposal submitted by the outgoing Commission under *Romano Prodi* on February 10, 2004 largely ignored the recommendations of its own expert group chaired by the Belgian economics professor André Sapir. The Sapir Group had concluded that in its current form the EU budget was an "historical relic" that did little for Europe's economic growth". This is why it recommended that a reformed budget should be divided into a fund for economic growth (including research and development), a convergence fund, which would include all current regional aid, and would be concentrated in the new, relatively poor member states, and a restructuring fund that would help industries, including the farm sector, to adjust. It also recommended that the EU should reduce the portion of the budget it spends on agricultural support to just 15 per cent from the then effective 40 per cent.

The Commission's proposal was much more conservative than Sapir's suggestions, and initiated only rather prudent changes, which was partly related to the recognition of political realities. For instance, the agreement about agricultural subsidies signed by the President of France *Chirac* and Chancellor of Germany *Schröder* in October 2002 was regarded to have been cast in stone. In addition, the proposal – rather than steering regional aid to the new member states – would have allocated over half of the structural fund spending to the 15 old ones – even though all but two had incomes per head above the EU average. The only essential new element in the Commission's proposal was the increase in spending on policies for growth and competitiveness, however agricultural subsidies and the structural funds would have still accounted for the lion's share of the budget, namely 33 per cent and 36 per cent of the total, respectively, over the 2007 to 2013 period. Apart from this, the Commission proposed that the first financial perspective after the year 2006 should again span seven years, but then 5-year planning periods should follow one another.

Hungary's standpoint

Hungary found the Commission's proposal as a good starting point, since it was close to Hungary's standpoint in that the financial perspective after 2006 should credibly ensure the further funding of the old community policies and the funding of new tasks. From among the community policies the cohesion and the agricultural policies were especially significant for Hungary; and among the new challenges before the Union supporting research and development for the enhancement of competitiveness, as well as the protection of the common external borders and the new neighbourhood policy were of special importance.

Hungary urged that the expenditure structure of the new financial perspectives should ensure the implementation of the theory of community solidarity through the maintenance of the cohesion policy. It did so because a considerable portion of the population of the new member states live in regions where community support can directly contribute to the elimination of social, economic and regional disparities. EU subsidies create jobs, support the development of the local and national infrastructure, help enterprises become stronger, and contribute to environmental protection. According to the Hungarian standpoint, the regions of the new member states must receive funding comparable to the supports granted to the beneficiary regions of the old member states. According to the EU regulations, such supports cannot exceed 4% of the gross national income of a country[7]. In addition, Hungary believes that the agreement reached in October 2002 on the annual nominal increase of market-based and direct payments to the member states by 1% by 2013 is an endowment influencing budgetary planning. In Hungary's view, the EU can hold its ground in the global competition only if more investments are made in the field of research, development and innovation, as well as in human resources.

Since according to Hungary it is necessary to simultaneously maintain the community policies that have played a crucial role so far, satisfy the funding needs arising from the enlargement and comply with the new tasks, it supported that proposal of the Commission according to which the ceiling of the expenditures of the new financial perspective should not be lower than the current one. Furthermore, Hungary found it important that the upper limit of commitments should be set at 1.24% of the aggregate gross national income of the Community. In addition, in response to the efforts of the largest net contributors, Hungary did not agree with rebate systems that earmarked refunds based on the net position.

A compromise in the wake of heated debates

The difference between the effort of the six large net contributors and the Commission's proposal was rather considerable: it amounted to EUR 215 million annually, or EUR 1.5 billion for the entire seven-year period. The Parliamentary report published on June 8, 2005 tried to bring the two standpoints closer to each other, and proposed to set the budget ceiling for payments at 1.07 per cent. In the run-up to the June 2005 summit, some of the net contributors indicated that they might accept a somewhat bigger budget, but only with conditions. For the sake of an agreement, the rotating Luxembourg presidency proposed a compromise that was more beneficial for the large payers. However, at the Council's meeting the Prime Minister of Britain submitted a radical proposal demanding structural changes, and at the same time he insisted on maintaining the British rebate. Therefore, despite the efforts of the Prime Minister of Luxembourg, no agreement was reached at the June summit.

Despite the failure of the Brussels summit, new intensive negotiations commenced between

the member states during the British Presidency, which started on July 1, 2005. As a result, a near-agreement was reached by December last year. The increase of the commitments equalling 1.03% of the GNI could have been accepted by the majority of the net contributors, however Sweden called for further savings. On the other hand, Poland and Hungary did not approve the budget that had been curtailed by 3% compared to the proposal of Luxembourg, due to the significant reduction of cohesion fund spending allocated to the new member states (minus 8 per cent), and because of the increasing funding needs of the enlarged Union. The lower budget was found to be inadequate by the three Baltic states, too. The size of the budget was significantly determined by the announcement made by the largest contributor, Germany, according to which it could accept a ceiling of 1.04–1.05 per cent of the GNI. As a result, the 1.045% ceiling of the third British perspective was accepted by the member states (EUR 862 billion in commitments and EUR 821 billion in payment appropriations).

In the debate conducted at the working dinner of the summit four large net contributors, as well as Belgium and Luxembourg were for allocating larger subsidies to the new member states. At the same time, four of the new member states accepted the reduced cohesion funds partly due to the proposed individual discounts, and partly due to the cancellation of the planned restriction of the rules of use, or the alleviation thereof. In relation to the rules of use it was paramount to maintain the eligibility of non-refundable VAT, the increase of the maximum rate of EU co-financing to 85%, the accountability of the costs of projects financed in conjunction by the public and the private sectors (PPP projects), as well as the creation of the possibility to grant subsidies to improve the living conditions. The new member states unanimously objected to the introduction of the automatic decommitment rule (n+2–rule[8]) under the Cohesion Fund. Therefore, the final agreement stipulated that for the first four years of the period the n+3 rule would be introduced.

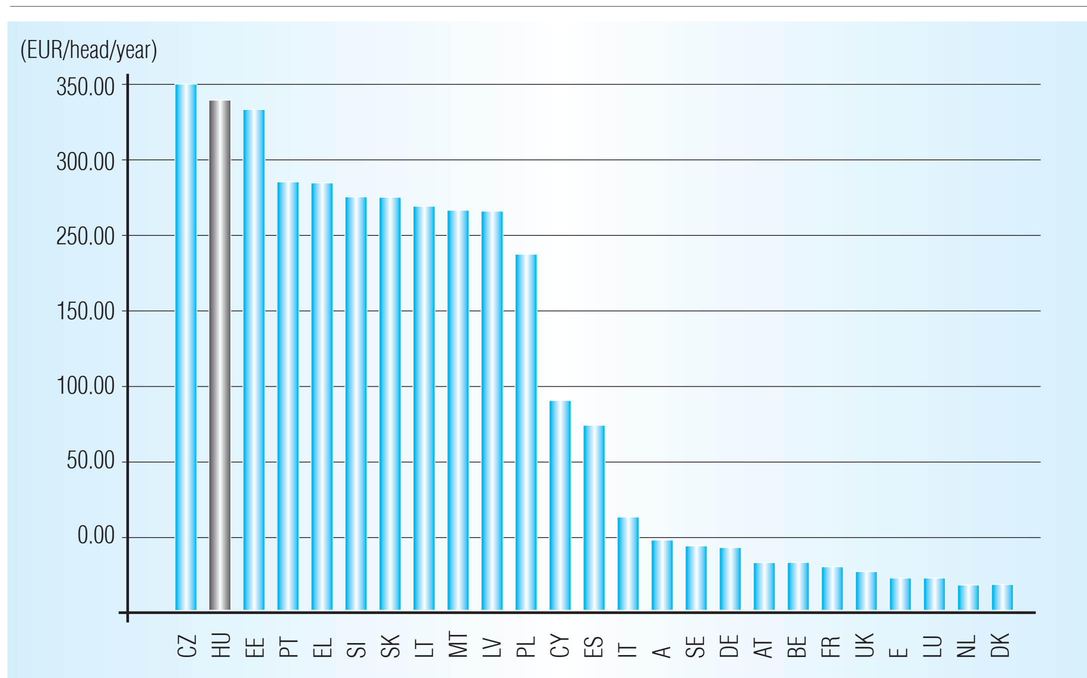
The reduction of the British rebate by EUR 8 billion was considered insufficient by the overwhelming majority of the member states for the equitable distribution of the costs of enlargement. In line with the expectations, the rebate was criticised by several member states. The deal, which means that the costs allocated for the new member states will be gradually taken out from the amounts earmarked for the British rebate, was finally struck based on the compromise between the Prime Minister of Britain, the Chancellor of Germany and the President of France. In pursuance of the agreement, the calculation of the British rebate will gradually change from 2009 onwards. The costs allocated to the new member states will progressively be taken out of the calculation formula from 2009 onwards, and in full from 2011, with the exception of CAP. This is to prevent the growth of the British rebate proportionately to the costs of enlargement. At the same time, the agreement maximizes the increase in contribution paid by Britain in the years 2007–2013 – arising from the reduction of the rebate – at EUR 10.5 billion.

In return for the individual discounts and more flexible rules of use under the cohesion policy, most member states could have accepted the reduced gross sum contained in the second British proposal. Partly out of principle, and partly because of the small size of the discounts, Hungary and six other – mainly new – member states did not find the discounts sufficient. Their demands could be mostly tackled by the third British proposal, and a consensus could be reached. *(See Figure 2)*

In the other pivotal issue of the British and French debate a low-key text of compromise was accepted despite the former harsh announcements. In pursuance of the elaborated

Figure 2

PER CAPITA SUPPORT FROM THE COHESION FUND BETWEEN 2007 AND 2013 IN THE EU-25 COUNTRIES



formula, in the years 2008 and 2009 the Commission will submit a comprehensive review material covering all elements of the budget, such as the community policies – including CAP – however it does not contain any provision that would create and obligation or automatic mechanism before 2013 or after 2014. The approved Council proposal for the budget was EUR 113 billion (11.6%) less than the amount the Parliament had originally found necessary, and EUR 60 billion (6.5%) less than the initial proposal of the Commission.

The agreement bargained by the heads of state and government can enter into force only upon being approved by the Parliament. However, the Parliament found the amount of the compromise too low, wherefore it demanded that the budget would be expanded by at least EUR 12 billion, and demanded a bigger say in the discussions of 2008–2009 designed to review the system of the EU budgets. The Budget Committee of the Parliament determined: if the member states do not table a more favourable proposal, it would rather back out from the trilateral agreement on the budget signed in 1999 and then partially modified in 2002. For the lack of an agreement, the institutional framework in which the medium-term financial plans may exist would disappear, and we should return to the system of annual budget-bargaining. The termination of the agreement may seem threatening in the first instance, however experts believe that it is actually a dual weapon. It is a matter of interpretation to what extent the threatening should be regarded fatal, since the current agreement will cease to have effect anyway, and a new one would be needed from 2007 on. Threatening with termination is weightless as long as it is not accompanied by the announcement according to which the Parliament does not wish to sign any new agreement in the future. However, this was not the case. What's more, the Parliament showed willingness in continuing

the negotiations in case the Austrian presidency would receive an "actual mandate" for this.

Rapporteur *Reimer Böge* justified his standpoint expressed in the draft he complied with the fact that the financial perspective reached by the member states "does not guarantee an EU budget enhancing prosperity, solidarity and security". This is why the Parliament – in line with its standpoint – found it necessary to increase the total budget by at least EUR 13 billion, or 1.5%. According to the draft report, the compromise reached by the member states in December focuses on the traditional policies "rather than putting emphasis on policies enabling the European Union to face new challenges and develop added value for citizens". Furthermore, the draft deplored that the member states fought to preserve their national interests rather than foster the European dimension. Finally, the Parliament objected to the Council's agreement because it did not provide for a detailed flexibility mechanism, or a clear role for the Parliament in the review.

The intense negotiations between the Council's Permanent Representatives Committee (COREPER) and the Parliament outlined a new compromise by early April, which already seemed acceptable for both sides. As a result, on April 5, in the fourth round of the trilateral talks, after a session of more than seven hours, the delegation of the Parliament agreed with the Austrian Presidency about the EU budget for the years 2007–2013. The seven-year community budget will be EUR 4 billion larger than that established at the December summit of the heads of state and government of the EU member (EUR 862.3 billion). *(See Table 2)*

Although the Parliament demanded a sum three times bigger than the achieved surplus, it still succeeded in ensuring that significantly greater funds be spent on programs facilitating the Lisbon strategy, such as research, develop-

Table 2

THE INTERINSTITUTIONAL AGREEMENT IN FIGURES

	Growth compared to the Council Agreement of December (EUR million, at 2004 prices)	
Subheading 1.a – Competitiveness for growth and employment		**2 100**
Trans-European networks	500	
Lifelong learning (Erasmus and Leonardo)	800	
7. Research framework program	300	
Competitiveness and development	400	
Social policy agenda (Progress)	100	
Subheading 1.b – Cohesion for growth and employment		**300**
Structural Funds (regional cooperation)	300	
Heading 2 – Preservation and management of natural resources		**100**
Provision for action plans (Life+ és Natura 2000)	100	
Subheading 3.b – Citizenship		**500**
Healthcare and consumer protection	200	
European culture and citizenship (culture, youth, European citizens)	300	
Heading 4 – The EU as a global partner		**1000**
European neighbourhood and partnership instrument	200	
Common foreign and security policy	800	
Total:		**4000**

ment, trans-European networks, supports to small and medium-sized enterprises, and education. Furthermore, the budget of the Union's foreign policy was also raised significantly (by EUR 1 billion).

From the surplus of EUR 4 billion, 2 billion comes from the modification of the computational rules pertaining to the traditional revenue resources of the Union, and the other 2 billion comes from the emergency fund and the solidarity instrument. In addition, the guarantee fund of the European Investment Bank was raised by EUR 2.5 billion. As a result, EIB can contribute EUR 1 billion more to development and SME supporting programs each, and EUR 0.5 billion more can be spent on the development of trans-European networks, too.

The Parliament and the representatives of the member states also agreed to evaluate the experiences of the budget and the interinstitutional agreement at the end of 2009, and to involve in this process the European Parliament to be re-elected in that year. The agreement also calls for the enhancement of the quality of the use of community funds by the member states, as well as the execution of the programs and the budget, and also for parliamentary control over the external activities of the Union. The flexibility related provisions also improved by the establishment of a fund designed to offset the unfavourable effects of globalisation, as well as by maintaining the European Solidarity Fund, the immediate assistance reserve and the flexibility mechanism.

The interinstitutional agreement staved off the threat of the need to approve the Union's short-term budget annually for the lack of an agreement. The agreement will become final after the deputies approve the medium-term financial perspective at the plenary meeting of the Parliament – presumably on one of the session days between May 15 and 18 – in an official format, too. By that time the text of the agreements will be made more accurate both legally and professionally. As for the Council, it will confirm the agreement at the next meeting among the items to be approved without debate.

After the agreement was reached, President of the European Parliament *Joseph Borrell* announced that during the negotiations the Parliament had fought not only for more resources, but also for a better budgetary structure. From among the achievements he pointed out that the Erasmus program, lifelong learning, developments and small and medium-size enterprises would receive greater subsidies. The Parliament's budget rapporteur Reimer Böge stated that although he was not satisfied with the agreement, but a compromise still acceptable under the current circumstances had been reached. He considered it as a positive achievement that 40,000 more students would be able to participate in the European exchange programs.

President of the Commission J*osé Manuel Barroso* believes that the compromise based deal is definitely more favourable than the December agreement of the Council. He believed that the EU now has those resources at its disposal with which the objectives of the next seven years can be implemented.

Soon afterwards the Foreign Policy Committee of the Parliament accepted *István Szent-Iványi's* report on the Instrument for Preaccession Assistance (IPA) planned for the period of the new financial perspective. According to the committee's proposal, IPA would replace the large number of pre-accession instruments (PHARE, ISPA, SAPARD, CARDS, TAIEX, etc.). The new scheme would partly apply to candidate countries (Turkey, Croatia, Macedonia), and partly to the other countries of the West Balkan, (Bosnia Herzegovina, Serbia and Montenegro, Albania), as potential candidate countries. The European Parliament will be able to call the Commission to suspend or restore supports should it be justified by the behaviour of the beneficiary state.

Table 3

THE SIZE OF THE EXPENDITURE HEADINGS

(EUR million at 2004 prices)

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	2007–2013 Total
1. Sustainable growth	51 267	52 415	53 616	54 294	55 368	56 876	58 303	382 139
1a. Competitiveness for growth and employment	8 404	9 097	9 754	10 434	11 295	12 153	12 961	74 098
1b. Cohesion for growth and employment	42 863	43 318	43 862	43 860	44 073	44 723	45 342	308 041
2. Preservation and management of natural resources	54 985	54 332	53 666	53 035	52 400	51 775	51 161	371 344
including: market related measures and direct payments	43 120	42 697	42 279	41 864	41 453	41 047	40 645	293 105
3. Citizenship, freedom. security and justice	1 199	1 258	1 380	1 503	1 645	1 797	1 988	10 770
3a. Freedom. security and justice	600	690	790	910	1 050	1 200	1 390	6 630
3b. Citizenship	599	568	590	593	595	597	598	4 140
4. The EU as a global partner	6 199	6 469	6 739	7 009	7 339	7 679	8 029	49 463
5. Administration*	6 633	6 818	6 973	7 111	7 255	7 400	7 610	49 800
6. Compensation	419	191	190					800
TOTAL COMMITMENT APPROPRIATIONS	120 702	121 473	122 564	122 952	124 007	125 527	127 091	864 316
as a percentage of the GNI	1.10	1.08	1.07	1.04	1.03	1.02	1.01	1.048
TOTAL PAYMENT APPROPRIATIONS	116 650	119 620	111 990	118 280	115 860	119 410	118 970	820 780
as a percentage of the GNI	1.06	1.06	0.97	1.00	0.96	0.97	0.94	1.00
Available room for manoeuvre (as a percentage)	0.18	0.18	0.27	0.24	0.28	0.27	0.30	0.24
Upper limit of own resources as a percentage of the GNI	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24

* The pension expenditures subject to the upper limit of this heading do not include the personnel contributions paid to the affected system, and were calculated for the years 2007–2013 based on the available EUR 500 million limit calculated at 2004 prices.

SUMMARY AND EVALUATION OF THE AGREEMENT FROM THE HUNGARIAN PERSPECTIVE

The commitment appropriations of the budget for the years 2007–2013 will equal 1.05% of the gross national income of the EU, or EUR 866.4 billion. (For the expenditure headings see *Table 3*, and for the grouping of expenditures see *Table 4*)

SUBHEADING 1A., COMPETITIVENESS: the gross sum of the heading has not changed since the proposal of Luxembourg was put forward. However, a modification was made in favour of the R+D expenditures; R+D supports allocated from the common budget will exceed the 2006 level by 75%. Special attention will be given to the development of trans-European networks. The European Commission and the European Development Bank were asked to work out a credit scheme of EUR 10 billion to support the R+D investments of the private sector.

SUBSECTION 1B., COHESION: an agreement about the gross sum of this heading was reached in the period between the last Luxembourg and the second British proposals. The cap on cohesion support to the new member states grew by 0.1143–0.1263 percentage point of their GNI. The other component of the growth of the cohesion support is made up

Table 4

GROUPING OF EXPENDITURES

HEADING 1	Sustainable growth	
1A.	Competitiveness for growth and employment	NME*
1B.	Cohesion for growth and employment	NME
HEADING 2	Preservation and management of natural resources	NME
	Exceptions:	
	•*the expenses of the common agricultural policy that affect market measures and direct subsidies, including fisheries related market measures and fishery agreements with third parties*	ME**
HEADING 3	Citizenship, freedom, security and justice	NME
3A.	Freedom, security and justice	NME
3B.	Citizenship	NME
HEADING 4	The EU as a global partner	NME
	Exceptions:	
	•*expenditures under the EU's international agreements with third parties*	ME
	•*contributions to international organisations and institutions*	ME
	•*contributions to the credit guarantee fund*	ME
HEADING 5	Administration	NME
	Exceptions:	
	•*pensions and severance pays*	ME
	•*benefits and other allowances paid upon the termination of service*	ME
	•*legal expenses*	ME
	•*reimbursements*	ME
HEADING 6	Compensations	ME

* NME = Non-mandatory expenditures
** ME = Mandatory expenditures

of individual discounts above the support. *(See Figure 3)*

Hungary's cohesion support equals 3.524% of the country's GNI, or EUR 22.5 billion. On top of this amount (i.e. above the ceiling of supports) the Central Hungarian region will receive an additional support of EUR 140 million in the years 2007–2013. The development projects to be implemented in the region will be subject to the same favourable rules of implementation as those realised in the poorest regions. As a result, the total amount of cohesion support was EUR 1 billion more than the first British proposal offered.

HEADING 2, NATURAL RESOURCES, AGRICULTURE: the frameworks of the common agricultural policy will basically be maintained for the years 2007–2013. The Brussels agreement reached in October 2002, which determined market based and direct payments to the producers until 2013, was respected with the supplementary provision that payments made to Romania and Bulgaria would also form part of the agreement of 2002. In the case of the old member states, regrouping from direct payments for rural development purposes may grow to 20% through voluntary modulation.

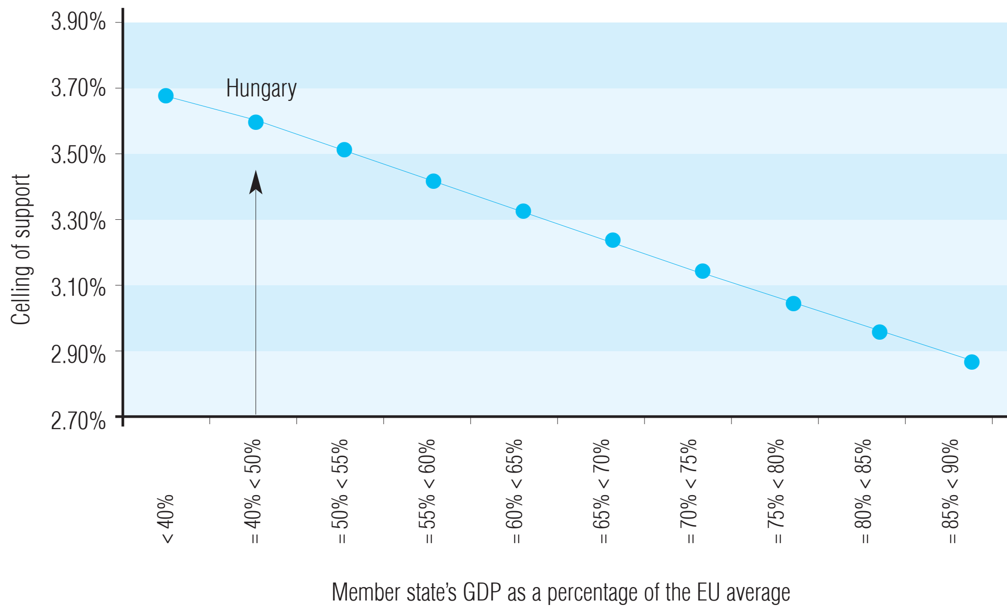
The direct support to producers and market based subsidies will be disbursed to Hungary in compliance with the provisions of the Accession Treaty. Hungary will receive EUR 3 billion as rural development subsidies throughout the seven years.

HEADING 3, *subheading 3a, freedom, security and justice* will continue to receive special attention.

The size *of subheading 3b (culture, youth, audiovisual matters)* was determined at a slightly lower level than envisaged by the Luxembourg proposal.

Figure 3

CAP ON COHESION SUPPORT



HEADING 4, EXTERNAL ACTIONS: the budget of this heading equals the budget proposed during the Luxembourg negotiations. No change has been made to the system of instruments applied in external actions compared to the Luxembourg proposal. The European Development Fund (EDF) remains outside the common budget, however the budget of the common foreign and security policy (CFSP) may increase.

HEADING 5, ADMINISTRATION: the budget of the heading is identical with the one contained in the Luxembourg proposal, however there are differences in the yearly breakdown.

Compensation: Romania and Bulgaria will receive budgetary compensation in the period between 2007 and 2009 so that their net position would be favourable in the first years of their EU membership. (This compensation is similar to what the countries that became members in 2004 receive in the first three years of membership.)

RULES PERTAINING TO THE USE OF SUPPORT

Non-refundable VAT will continue to be eligible costs. This is of paramount importance for both the local governments and the central budget.

At the Structural Funds the maximum rate of co-financing was raised to 85%. This is a significant step forward compared to the period of 2000–2006.

The agreement does not extend the Lisbon cap on cohesion supports to the new member states, which creates a greater room for manoeuvre in the development of local infrastructure.

An agreement was reached about the introduction of the n+3 rule already mentioned under the Cohesion Fund and the Structural Funds for the years 2007–2010.

The costs of projects financed from public and private resources alike will become eligible for support. This is especially important in the case of PPP projects, since it increases the possible rate of co-financing by the EU by expand-

Table 5

HUNGARY'S TOTAL SUBSIDIES AND CONTRIBUTIONS IN THE YEARS 2007–2013

(at 2004 prices, EUR billion, total for 7 years)

AVAILABLE SUBSIDIES (level of commitment appropriations)	
1a. Competitiveness (TEN, R+D, lifelong learning, etc.)	1.0
1b. Cohesion policy	22.6
2. Natural resources	9.2
direct agricultural support	6.1
rural development	3.0
other (fisheries, environmental protection)	0.1
3. Area of freedom, security and justice (media, culture, migration, etc.)	0.1
4. EU as a global partner (support to third countries)	0.0
5. Administration	0.1
6. Compensation (only to Romania and Bulgaria)	0.0
Total:	33.0
EU BUDGETARY REVENUES	
Traditional own resources (customs duties, sugar levies)	1.9
Contributions (VAT- and GNI-based)	5.8
VAT-based contribution	0.9
GNI-based contribution	4.9
Financing the British correction	0.6
Total:	8.3
BALANCE OF COMMITMENTS AND PAYMENTS	24.7

ing the group of eligible costs. Furthermore, it becomes possible to subsidise housing projects.

REDUCTION OF THE EXCESSIVE NET POSITIONS

In pursuance of the agreement, the calculation of the British rebate will gradually change from 2009 onwards. The costs allocated to the new member states will progressively be taken out of the calculation formula from 2009 onwards, and in full from 2011, with the exception of CAP. This is to prevent the growth of the British rebate proportionately to the costs of enlargement. At the same time, the agreement maximizes the increase in contribution paid by Britain in the years 2007–2013 – arising from the reduction of the rebate – at EUR 10.5 billion.

In the system of own resources four member states are given preferential treatment in order to reduce the extreme imbalance of their net positions.

REVIEW CLAUSE

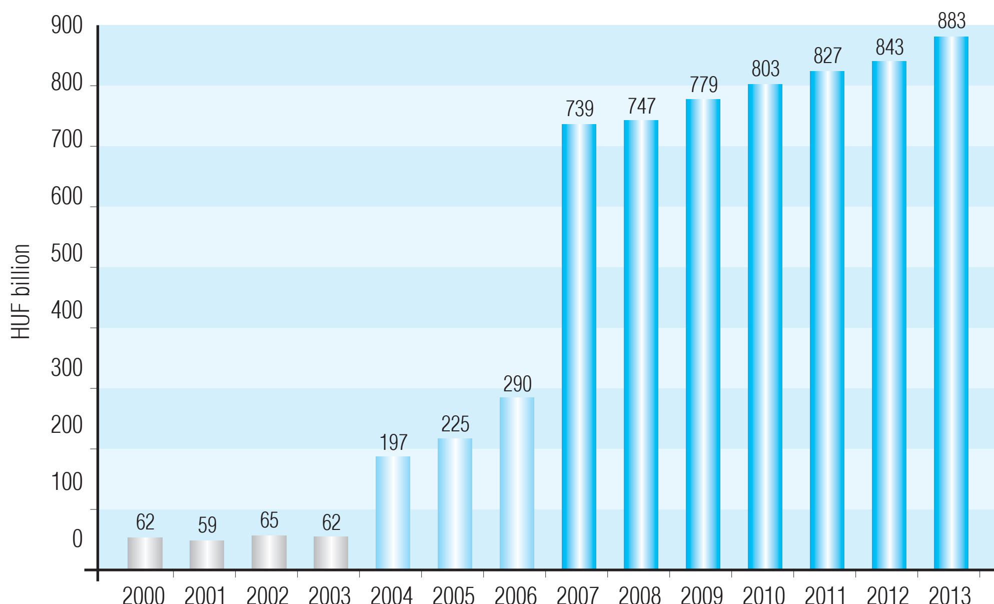
The clause on the review of the financial perspective did not turn out to be very ambitious. The Council invites the Commission to review the expenditure and revenue sides of the budget in the report to be published in 2008–2009. The conclusions of the report can be taken into account during the preparation of the next financial perspective for the period after 2013.

As it can be seen from *Table 5*, Hungary may receive a total of EUR 24.7 billion in development resources, which equals 4% of

Figure 4

COHESION SUPPORT GRANTED TO HUNGARY IN THE YEARS 2000–2013

(Phare, ISPA, SAPARD, Structural and Cohesion Funds)



its GDP, in the years 2007 through 2013 under the cohesion policy of the EU. *(See Figure 4)* The precondition for drawing the resources down is the existence of the National Strategic Reference Framework (National Development Plan[9]) and the relevant operative programs.

This document shall establish the system of objectives and tools related to the use of funds.

According to the Government's concepts, counting with a realistic, annual economic growth of 4 to 5%, the Hungarian budget will contribute to the community resources nearly HUF 90 billion in 2007 and nearly HUF 200 billion in 2013 in the framework of co-financing.

This year, community funds assist the implementation of 20% of Hungarian development projects, and this ratio will grow to 60% by 2013. In 2006, community resources worth HUF 316 billion will come to Hungary through the Hungarian budget, which is expected to grow to HUF 1,060 billion by 2013.

In line with the EU's priorities, the main pillar of the National Development Plan effective in the period of the new financial perspective is about the enhancement of competitiveness, the promotion of economic growth, the expansion of employment and the enhancement of justice, as well as the establishment of security. The target oriented and regionally efficient use of EU funds that would expand considerably compared to the current period can significantly accelerate the pace of economic development and the alleviation of social tensions.

In the next seven years, the Hungarian citizens, entrepreneurs, local governments and regions can be actively and fully involved in the implementation of community programs that cover almost all areas of the economic and social life of EU citizens. These programs include the LIFE+ environmental program to be launched at the beginning of the new finan-

cial perspective, the Competitiveness and Innovation Framework Program (CIP), the Seventh Framework Program for Research and Technological Development (FP7), MEDIA 2007, the Integrated Action Plan for Lifelong Learning, as well as the Culture 2007 and Youth in Action programs.

FURTHER TASKS[10]

The sizeable supports that will be available during the seven-year period starting in 2007 will offer promising perspectives for Hungary in the next two election terms. However, the next wave of enlargement, and the envisaged accession of the Balkans with a population of 15 million will definitely change our position in the EU, and the amount of subsidies that could be used under the next financial perspectives will be necessarily curtailed. This is why we must make the best of the next seven-year period to win a stable position in the community based on well-developed strategies and development concepts. Completion of the task is made difficult by the fact that the disorderly budget must be urgently remedied, and the budgetary deficit, which by far exceeds the Maastricht criteria, must be reduced. In addition, towards the end of the period Hungary will have to face increasing budgetary burdens in relation to the pension system due to the unfavourable demographic processes. In the imminent period Hungary must streamline its central public administration system, and develop a smaller and more efficient system of self-governance based on decentralisation. In addition, the reform of the large provision systems, especially that of healthcare is inevitable, and the comprehensive review of the pension system cannot be evaded either. The Government must submit to the Commission already in September the convergence program containing the authentic program for the completion of all these tasks, and must set to implement it without delay. The failure of implementation would not only trigger the serious consequence of the money markets' shattered confidence in Hungary, but also the freezing and partial loss of the expected supports. Under the given circumstances, the special significant of the available EU supports is given by the fact that in spite of the naturally painful reduction of budgetary expenditures they make it possible to avoid or (at least endure) the streamlining of infrastructural, cultural and educational developments taken in the broad sense of the word. This is especially important in terms of laying the foundations for the country's future. Since budgetary developments can no longer be financed at the expense of aggravating indebtedness, we must make the best of the resources available through Hungary's EU membership. It is impermissible to lose even the smallest subsidy due to planning or implementation errors, delayed implementation, or due to the inefficient use of funds.

PREPARATION FOR THE DEVELOPMENT OF THE NEXT FINANCIAL PERSPECTIVE

In the medium run, the future of the Union – including the opportunities to be exploited by Hungary – will be largely determined by the preparation of the Commission's report on the expenditures and own revenues of the common budget scheduled for 2008–2009, and the debates to be conducted based on the report. In the course of those debates we will again face the question as per what consensus can be reached about the existing community policies, especially about the future of the common agricultural policy. It may seem early to ponder about this question, however it is not useless to prepare for this review well in advance. It is important to prepare for this presumably fierce debate thoroughly and free of any pre-concepts. The call for review does not necessarily

mean that the common agricultural policy is a completely obsolete, wasteful mechanism, in relation to which the only question is how to get rid of it as soon as possible. But it cannot be regarded as an eternal rule either that resources allocated to the common agricultural policy can be used in the old structure and method. In the light of the often radical changes that occurred in the social and economic structures of the member states, in the framework conditions of world politics and trade in the past four decades, as well as in the light of the global climate change and the energy balance of the world one must thoroughly think over to what extent the original objectives of the common agricultural policy should be modified, and how the objectives to be pursued in the future could be most efficiently achieved. However, no matter how good the strategy is if the farm sector is not restructured, and adjustment is only forced by the new rules retroactively, and therefore with delay.

The community must make progress in the issue of own resources, too. The member states are not likely to agree on the introduction of an independent European tax, however, anomalies that led to different contributions paid by similarly developed countries must obviously be eliminated. For instance, Belgian Prime Minister *Guy Verhofstadt* proposed the introduction of a guarantee rule that would put a cap on per capita contributions paid by the wealthier member states as a percentage of the average GNI in the EU. Such a move would definitely limit the amounts that could be allocated for poorer countries so that they could catch up with the wealthier ones.

The other big issue that will determine the future of the EU – and consequently, the frameworks of its budget – in the medium run is the development of its enlargement policy. The EU must maintain its openness towards those European countries that have expressly indicated their intention to join the Union, and which are ready and able to meet the accession criteria. This is indispensable for the Union to radiate stability towards its environment, and is equally important for those European countries for which accession to the EU is the direction of development. Due to its recent accession to the EU, as well because of its geopolitical situation, Hungary must promote openness within the Union. However, while maintaining openness, it is equally important for the EU to consistently stand by its own principles, and require all candidate countries to fully comply with the so called Copenhagen criteria[11]. It is no surprise that Hungary – a country that tread along this road itself – expects that these criteria be met in the future, too. This is also the key to restoring the confidence of the general public in that the enlarged Union can provide the same or even better conditions than pre-enlargement Europe. The consistent enforcement of the principles can convince the candidate countries that the decision about their admission is not made on the basis of the sum of sympathies and antipathies, but exclusively depending on whether or not they will be ready and able to meet the political, legal and administrative conditions of accession. However, since further enlargement of the EU would practically mean the accession of countries that are less developed than Hungary[12], we must be aware of the fact that the specific weight of subsidies available for Hungary will decrease. Consequently, the further process of enlargement will be beneficial for the country if the domestic companies are able to exploit the opportunities offered by the increased market.

Another big question will be – obviously in relation to the aforesaid – whether the tendencies within the Union strengthen or not upon which after the establishment of the euro zone and the Schengen area internal homogeneous groupings of member states will emerge in more and more regions, and whether the current "outsiders" can join or catch up with these

internal groupings within the shortest possible time. There is no doubt that this issue will be crucial for Hungary's future position in the European Union, and also for the direction in which the entire EU will open up. There is no doubt that we are primarily interested in a Europe which manifests as much homogeneity, togetherness and solidarity as possible, in which we become involved as soon as possible in the long-standing and reinforced cooperation, but where the main point is not in having more and more smaller groups. The precondition for all this is that at our own fault we must neither halt nor hinder tighter integration, which requires successful economic policy efforts.

At last but not least we must find the answer to the question that will determine the future of the Union in the short, medium and long run alike: how can the trust in the European institutions and European integration be restored and strengthened? Although this question is not directly related to the community finances, real progress in the common matters – including the common budget – is hardly possible without finding a good answer to it. Partly due to the volumetric limits of this article, I will not endeavour to take into account all factors of the reinforcement of confidence, however I must definitely point out the general opinion about the European Union and globalisation. The analysis of the rejection of the European constitution in the French and Dutch referendums clearly shows that the fears of the general public about the consequences of the competition that goes with globalisation are projected to the European Union, and especially to the enlargement related expectations. However, such fears can be encountered not only in the societies of the founding member states: according to the Eurobarometer survey cited above, 55% of the Hungarian respondents thought that the EU membership adversely affected employment. In relation to the fears related to EU membership, as much as 75% of the Hungarian respondents indicated the loss of jobs, or the transfer thereof into other countries. All this indicates that people must be convinced with facts and arguments about the fact that the European Union is not the cause of the needs to adjust, but on the contrary: it provides tools and opportunities enabling the individuals, communities and member states to successfully face the challenges inherent in globalisation. It would be worth reminding ourselves, too, of the fact that after the political turnaround Hungary could successfully join the group of market economies and meet the challenge of competitiveness that was dreaded by so many people, and the impacts of which could not be fully predicted. Similarly, the first two years of Hungary's EU membership on the whole proved to be successful, and the worries and fears turned out to be unjustified. The only effective remedy against the parlous fear from the future is the one to which the motto of my writing calls attention: the future should not be foreseen, but made possible.

NOTES

[1] This article contains the author's views and does not necessarily reflect the official standpoint of the European Commission.

[2] This thought of the famous French pilot, writer and moralist (1900–1944) was the motto of the Commission's proposal tabled in February 2004 on the financial perspective for the years 2007–2013. The quotation is from the author's book of essays titled "The Citadel" which was translated into Hungarian by László Pödör under the title Citadella (Lazi Publishing House, Szeged, 2002)

[3] The Gross National Income (formerly Gross National Product – GNP) is the sum of the gross domestic product (GDP), and the capital incomes

received from abroad and paid abroad. According to the preliminary data of the HCSO, in 2004 the gross national income (GNI) in Hungary totalled HUF 19,273 billion at current prices, while the gross domestic product (GDP) equalled HUF 20,413 billion.

[4] Since it joined the European Community in 1973, it has been a major intention of the United Kingdom to adjust the amount it pays as contribution to the community. The theoretical basis for this was given by the fact that the agricultural sector does not play a crucial role in the national economy of the United Kingdom, wherefore it can expect only minor subsidies under CAP. In addition, due to joining the Community, it was no longer eligible for the favourable imports from the British Commonwealth, which lead to deteriorating terms of trade. For this reason, it was decided at the Council's Fountainbleau Summit in 1984 that Britain would receive a rebate in relation to the VAT-based contributions. This rebate system has been modified several times since then, as a result of which the rules pertaining to own revenues have by now become extremely complex, which triggers much criticism.

[5] The French Jacques Delors, who was born in 1925, was the president of the European Commission between January 1985 and January 1995.

[6] CAP reform: the common agricultural policy (CAP) was first introduced in 1960 to provide secure food supplies for Europe at reasonable prices. However, the common agricultural policy has become the victim of its own success, since it accumulated undesirable surpluses from certain products, such as beef, barley, milk and wine. In addition, the subsidies paid to the European farmers distorted global trade. Therefore, in 1999 the Commission set to review CAP. In 2003, the EU agreed on further reforms, placing and especially big emphasis on quality agricultural production, and animal friendly husbandry, which protects the environment and preserves the values of the countryside. The EU intends to reduce direct subsidies to farmers in order to restore the balance between the agricultural markets of the EU and the developing countries.

[7] The ceiling set at 4% of the GDP is disadvantageous for the less developed EU member states because of the difference between the market and purchasing power of the exchange rate of the euro. However, since this restriction will not be in force due to the level of development Hungary has achieved, this remark is significant in theory only.

[8] In pursuance of Article 31.2 of Regulation 1260/1999/EC (June 21, 1999) laying down general provisions on Structural Funds, in respect of assistance to be carried out over a period of two or more years the Commission shall automatically decommit any part of a commitment which has not been settled by the payment on account or for which it has not received an acceptable payment application. This rule would have been extended to the Cohesion Funds, too.

[9] A National Development Plan must be prepared by every member state whose per capita GDP is below 75% of the EU average. Hungary and all the other nine countries that joined the EU on May 1, 2004 belong to this category. The National Development Plan must include all those development concepts and objectives for the implementation of which the member state concerned wants to use support from the Structural and the Cohesion Funds.

[10] When writing this section of the article I considerably relied on Péter Gottfried's study titled "How to go further after the agreement on the financial perspective" published in Európai Tükör Jubileumi Évkönyv (European Mirror Jubilee Yearbook – 2006).

[11] The Copenhagen criteria: in June 1993, the Council meeting held in Copenhagen set three criteria that the candidate countries had to meet before their accession to the EU. First of all, they must have achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, and the existence of a functioning market economy. Furthermore, they must have taken over the acquis in full and must support the various objectives of the European Union. In addition, the candidate countries must have a system of public administration that is able to apply and manage the EU legislation in practice. The EU reserves the right to decide when a candidate country meets these criteria, and when the EU would be ready to accept new members.

[12] Iceland, Liechtenstein, Norway and Switzerland, which are all more developed than Hungary and are the member states of EFTA, do not wish to join the EU in the foreseeable future, albeit for different reasons.

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