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ECONOMICS

EUROPEAN UNION FINANCIAL PERSPECTIVES 2007-2013

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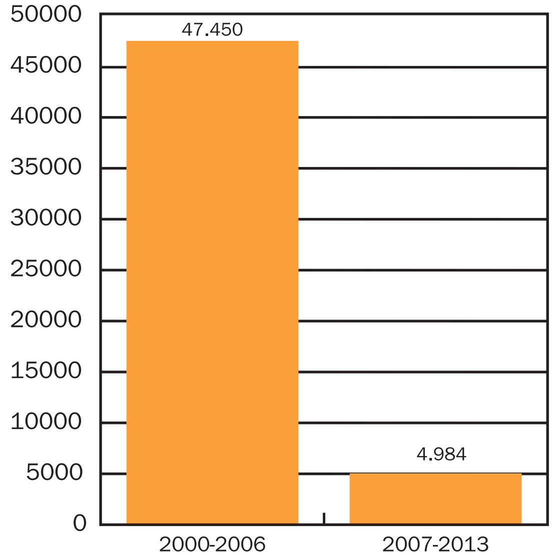
NET BALANCE FOR SPAIN

2000-2006	47.450 million euros
2007-2013	4.984 million euros
Diference:	-42.466 million euros
Loss for Spain (%):	**-89,5%**



The agreement reached on the European Union financial perspectives for the 2007-2013 period has been presented by Zapatero as an 'undeniable success' for his government and a 'marvellous outcome' for Spain. Unfortunately, the reality is quite different. Spain has lost 43 billion of the 48 billion euros of the net balance it previously received from the EU (90%). Zapatero has accepted an agreement that is practically the same as the agreement he ruled out as being 'unacceptable' and 'completely insufficient' for Spain just a short time ago. Spain has become one of the main financial contributors to European expansion, with a burden far greater than that of other much richer countries.

1. Negotiation of the Financial Perspectives: The Various Proposals

The purpose of the negotiations on the EU Financial Perspectives was to achieve an agreement among the Member States as to the size and allocation of the Community budget according to various objectives for the seven-year period 2007-2013. The important agreements forming part of these negotiations are adopted by unanimity. The starting-point for the last stage consisted of the proposal made by the European Commission in February 2004, which the Commission itself concluded in July with a series of explanations contained in a Communication to the European Council and the European Parliament. The Commission's proposal established a spending ceiling for the EU of 1.24% of Community's gross national income (GNI). In compatible terms, the spending of the EU would be capped at 1.20% of GNI, with a certain reduction on the levels that have been maintained since 1993. In this proposal, 40% of resources would be set aside for the Cohesion Policy, 35% for agriculture, 16% for promoting competitiveness for growth and employment, 7% for foreign policy objectives and 2% for ensuring a European area of freedom, security and justice. The most important items are as follows:

● The funds set aside for cohesion increased, although only in proportion with the expansion process. The negotiations took place after the adhesion of the 10 new Member States, which increased the European population by some 105 million inhabitants (up 20%), combined with a 5% increase in GDP. Given that these new states had a per capita income under 50% of the EU-15 average, this expansion significantly increased the burden on the resources allocated by the EU for cohesion policies.

● The resources allocated for promoting competitiveness and growth increased substantially, especially those set aside for R+D, Trans-European Networks and Education.

● The Commission proposed to reform the financing system[1] by introducing compensation mechanisms for excessive balances to all the net contributing countries and eliminating the British rebate, with which the United Kingdom has reclaimed approximately two-thirds of its budgetary contribution to the Union[2].

The net contributing countries (the United Kingdom, Germany, France, the Netherlands, Austria and Sweden) expressed a desire to substantially reduce the EU budget, establishing an upper limit of 1% of GNI. A reduction of this size would have a significant impact on the cohesion budget, from which Spain has received a considerable amount. This reduction in cohesion funds would also affect the new Member States, but, above all, the countries of the EU-15.

In the first few months of the negotiation process the Member States defined their position and a new negotiation method known as 'negotiating boxes' was designed under the presidency of the Netherlands, which in practice significantly reduced the power of the Commission's proposal, placing it on a level with any proposal made by the Member States.

"A few months ago, the Spanish Government vetoed Luxembourg's proposal because the final balance for Spain came to 4,738 million euros. However, the Government has now warmly welcomed the final agreement, which gives Spain an amount of under 5,000 million euros, almost identical to the previous proposal"

The first serious attempt at achieving agreement took place in June 2005 under the Presidency of Luxembourg. It was based on a proposal that substantially reduced the size of the Community budget, bringing it down to 1.06% of Community GNI, in spite of the enormous costs entailed by expansion. Furthermore the British rebate was frozen at the rate in the Commission's initial proposal, and the allocations set aside for promoting competitiveness and cohesion for the EU-15 were substantially reduced.

Agreement was made impossible by the United Kingdom's refusal to accept a freeze on its rebate. The UK claimed that any modification would have to entail to

[1] At present, the EU finances itself with what are known as its 'own resources', such as tariffs, agricultural parafiscal levies, etc. (11% of total financing), a share of the VAT generated in each country (14% of total financing) and through the contributions of each country according to its Gross National Income (which accounts for approximately 74%).

[2] Its value in the current financial framework comes to 4,600 million euros a year, and under the forthcoming financial arrangement it could rise to 7,500 million euros a year. A substantial deduction is applied to Germany, Austria, the Netherlands and Sweden for their contributions to the British rebate.

a review of all Community policies, including the Common Agricultural Policy. This veto was supported by Sweden, the Netherlands, Austria and Finland, and, unexpectedly, Spain. The Spanish Government stated that the proposal was 'entirely insufficient' for Spain, in spite of the fact that it included 2,800 million euros to cover a transitional period for the Cohesion Fund, an amount that was not initially included in the Commission's proposal. The loss to Spain in terms of regional and agricultural funds was considered to be unacceptable, with the final balance, according to the Spanish Government's own calculations, valued at 4,738 million euros, being 'far removed' from the goal it had set itself.

2. The Final Agreement for the 2007-2013 Period

The negotiations on the Financial Perspectives were concluded in the early hours of the morning between 16 and 17 December 2005. The main characteristics of the agreement were as follows:

- A final budget of 862,363 million euros, 1.045% of the EU's GNI and well below the 1.24% that the Commission considered necessary. It meant expanding Europe –more countries, more policies and a larger population– with less money. In this respect, the agreement is prejudicial to European construction.

- The British rebate increased by 9.5 billion euros during the seven-year period 2007-2013. The United Kingdom's total rebate in terms of its contributions will be equivalent to 34.5 billion euros.

- The Commissions proposal for a programme promoting competitiveness was cut by 50 billion euros.

- The Commission's proposal for the cohesion funds was reduced by 30 billion euros, i.e. 10%.

- Direct agricultural payments were reduced by 8 billion euros, whilst funds for the development of agriculture and fisheries were reduced by 22 billion euros.

- Funds for security and justice were reduced by half (down 10 billion euros) whilst funds for foreign measures were reduced by 40% (down 34 billion euros).

- The agreement included a review of the Community's policies in 2009 (especially its agricultural policy), so that these reforms could come into effect in 2014.

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The current system of own resources was not touched, although the main net contributors received multiples exemptions on their payment obligations.

It remains, however, for the European Parliament to approve the agreement. It is worth remembering that the parliament issued a report in June 2005 that was very different from the agreement that has actually been reached.

3. Consequences for Spain

This agreement is highly prejudicial to Spain. The country has lost some 43 billion euros net compared to previous financial perspectives, making it the EU country hardest hit by these negotiations. The final amount for Spain comes to somewhat less than 5 billion euros in commitment appropriations (which is what is negotiated).

This amount can be easily calculated using government figures for the outcome of the June Summit. In June, the proposal produced a balance in favour Spain that came to 4,738 million euros, which the Government vetoed. Now, the final agreement entails the following:

Losses compared to the Luxembourg proposal: Spain will have to contribute 1,350 million euros to the Community budget in order to finance the increase in the British rebate. Furthermore, it will suffer additional losses in terms of its funds for the development of agriculture and fisheries of at least 1,600 million euros.

"Spain is the hardest hit by these negotiations. Among other aspects, the country will lose 43 billion euros net compared to previous financial perspectives; it will contribute 1,350 million euros to finance the British rebate; and it will lose funds for the development of agriculture and fisheries to the tune of at least 1,600 million euros"

Improvements with regard to the Luxembourg proposal: the amount Spain receives from the Cohesion Fund will increase by 450 million euros. Ceuta and Melilla will receive an additional 50 million euros in total and 2,000 million euros will be pumped into the R+D fund. To all this we must add a reduction of 700 million euros in Spain's contribution to the budget, based on the final decrease in overall budget costs.

In total, the improvement on the Luxembourg proposal comes to no more than 300 million euros, which means that it is impossible for the net balance to exceed the figure of 5,000 million euros.

The Government, however, gave a final figure for commitment appropriations, after having denied it twice to the media, of 9,068 million euros. This figure is incompatible with the figure announced after the European Council in June, and no explanation has been offered as yet for this difference.

However, at the time the Government issued a much higher figure of more than 16 billion euros. The reason for this resides in the fact that the figure was given in terms of payment appropriations and not commitment appropriations, which means that the amount obtained by the Government in the negotiations was added to some 12 billion to 15 billion euros originating from commitment appropriations corresponding to the 2000-2006 period (that is to say, obtained by the previous government in Berlin) which will be received during 2007, 2008 and 2009. The negotiations were carried out, as always, on the basis of commitment appropriations. What was discussed was the volume of Community expenditure that could be undertaken during the seven-year period, with the corresponding amounts being received at the opportune time. In fact, the negotiation boxes overseen by the Presidency in order to reach agreement are always based on commitment appropriations.

The Government resorted to this unusual presentation in order to conceal the fact that it had accepted a poor deal, one that was very similar to the deal it vetoed in June 2005. It has failed to explain why it has now accepted a deal it previously vetoed.

The losses to Spanish agriculture and fisheries are considerable. The agricultural subsidy will be reduced by some 150 million euros a year compared to the current period (a decrease of 2.5%), and this reduction could come to as much as 10% of the total figure with the entry of Romania and Bulgaria into the EU. Furthermore, aid for rural development has been slashed by half, with a loss of 4,300 million euros over the seven-year period, whilst aid for fisheries has also decreased by 800 million euros over the seven-year term.

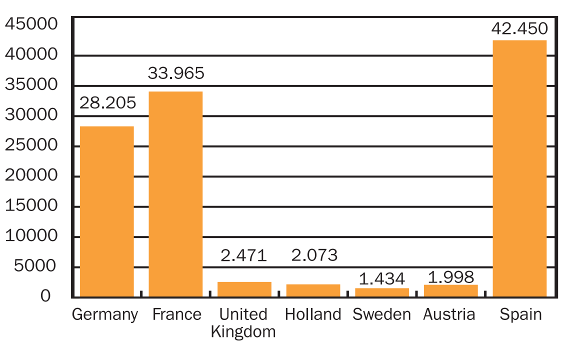
With this result, Spain has become the biggest underwriter for expansion, which will cost some 175 billion euros, of which Spain will contribute 25%, in spite of the fact that its GDP represents only 9% of the EU's GDP. In other words, it will pay three times more than it should under a fairer system. In terms of GDP, Spain will contribute 3.5 times more than Germany, twice as much as France and 15 times more than the United Kingdom, Sweden and Holland.

"Spain will pay 25% of the cost of expansion, although its GDP represents only 9% of the EU's GDP. Spain will contribute 3.5 times more than Germany, twice as much as France and 15 times more than the United Kingdom, Sweden and Holland"

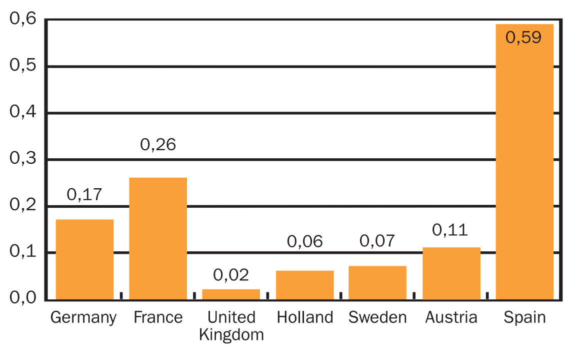
Once again, the Government has offered an incomprehensible analysis of the costs of expansion. According to these official figures, Spain only contributes 15 billion euros, given that the remaining amount of more than 40 billion euros in terms of losses would have occurred irrespective of whether the 10 new Member States had joined the EU or not. This argument is difficult to justify, given that the Government uses the per capita aid burden arising from expansion to calculate what would have happened if expansion had not taken place, which makes no sense at all. For example, according to the Government, Spain would have lost 5,196 million euros from the Cohesion Fund even without expansion, which is nonsense: without expansion, Spain would not have lost its cohesion funds, since they would in all probability not have been be reduced.

The lack of rigour of this analysis can be seen more clearly from another perspective. Let us imagine that no expansion had taken place and yet the resulting aid burden had still been applied, as the Government applies it. The loss to Spain would come to 20 billion euros. But at least 175 billion euros in the EU budget which is set aside for the expansion countries would still be available. What would

COST OS EXPANSION FOR SELECTED COUNTRIES (MILLION EUROS)



COST OF EXPANSION FOR SELECTED COUNTRIES AS % OF GDP



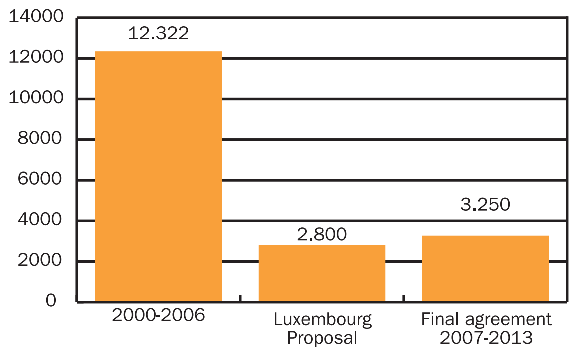
these funds have been used for? They would have been returned to the Member States, with Spain recovering at least 16 billion euros.

In conclusion, Spanish growth means that, in the worst case analysis, the country will only lose a few thousand million euros. However, Spain has lost out considerably because the country will be paying a substantial part of the cost of expansion.

Furthermore, Spain and its regions are discriminated against compared to countries and regions in identical circumstances.

- The transitional phasing-out period proposed for the Cohesion Fund is seven years and comes to only 3,250 million euros, which is well below the amount demanded by Spain (some 8,000 million euros if a transitional period is applied to the cohesion funds received by Spain based on the statistical effect).

COHESIÓN FUND RECEIVED BY SPAIN



- Germany, Sweden and Holland pay less in terms of VAT contributions than the rest, and Holland retains 15% of its customs revenues (a significant amount in the case of the Port of Rotterdam). Furthermore, specific cheques are paid to Holland and Sweden. Holland receives a rebate on its contributions of 605 million euros and Sweden a rebate of 105 million euros.

"The agreement accepted by the Government involves numerous benefits and forms of special treatment from which Spain is systematically excluded. In comparison, the amount obtained by the Spanish Government for R+D and for Ceuta and Melilla is very little: Bavaria, in spite of being one of the wealthiest regions in the EU, will receive 75 million euros"

- The British rebate has increased by 9,500 million euros.

- 4,000 million euros for rural development are pre-assigned to the majority of the wealthiest countries, but Spain is not included in this allocation.

- The two Irelands will receive 200 million euros for the peace programme. Spain, however, will receive no specific allocation of this kind.

- The German and Greek regions affected by the statistical effect will receive more than the Spanish regions (Asturias, Murcia, Ceuta and Melilla).

- Madeira and Finnish Lapland, in spite of no longer being included under Objective 1 due to natural growth, will receive much better treatment because of the statistical effect, which represents clear discrimination against the Canary Islands, an ultra-peripheral region as is Madeira. Lapland is not an ultra-peripheral region, but is treated as if it were.

- Five Polish regions will receive 107 euros per inhabitant per year. Additional funds are also granted for the Prague region and various Hungarian regions. The Spanish Government has not secured any clause of this kind for any Spanish region.

- The Italian Objective 1 regions will receive an additional 1,400 million euros, whilst the German Objective 1 regions will receive 225 million euros. The Spanish Objective 1 regions do no benefit at all from these allocations.

- The Canary Islands must share their ultra-peripheral region funds with Austria, Sweden and Finland, although this loss is partially compensated for through a payment of 100 million euros.

"A simple comparison reveals the true outcome of a series of negotiations whose importance the Government does not seem to have grasped: In 1999, Spain received a net balance of 47,500 million euros for the period 2000-2006; now the country has lost 43,000 million in order to gain only 2,000 million euros from the R+D Fund and 3,250 million euros from the Cohesion Fund. This is the true extent of the Zapatero Government's success"

Cyprus is granted a transitional phasing-out period, but Cantabria is not, in spite of being in a similar situation. And what is even worse, Corsica, which is in an identical situation to Cantabria, will receive 30 million euros, whilst the Spanish region will receive nothing.

A maximum limit of 150 km is established for cross-border cooperation, which means that the Balearic Islands are the only set of islands in Europe that fall outside this limit. What is more, the European regions situated along the former border between the EU-15 and the 10 new Member Countries will receive 50% more aid, which is prejudicial to all the Spanish border regions.

The Swedish and Austrian Objective 2 regions will receive another 150 million euros each, but there are no provisions of this kind for the Spanish Objective 2 regions. Bavaria, despite being one of the wealthiest regions in Europe, will receive an additional 75 million euros.

4. The Government's Negotiation

The profile of the Spanish Government throughout the course of the negotiations was extremely low. Nobody looked to Spain in order to bring about an agreement. A clear example of this lack of interest is provided by the fact that the Spanish Foreign Affairs Minister was absent from the General Affairs Council meeting on 7 December, which was when these matters were discussed. What is more, Spain concluded its negotiations at midnight, whilst Poland fought on until three-thirty in the morning.

In spite of the Government's self-glorification, nobody recognises Spain's starring role in the negotiations. Chirac spoke about a Franco-German proposal (which was later backed by Poland, Italy and Spain). The entire international press mentioned Blair, Merkel, the Polish President and, to a lesser extent, Chirac, as the main players. As a result of the Spanish Government's lack of interest and poor negotiating strategy (which consisted of making constant concessions), Spain lost more with every new proposal that emerged. And in the end, the Government achieved a poor overall result, despite the small concessions the country was granted as a form of consolation.

"The negotiating position that the Socialist Government inherited from the PP was extraordinarily solid. Lack of interest and apathy have meant that the Commission's initial proposals have been revised in order to benefit other countries more prepared to safeguard their interests within the negotiating process"

In 2004 the PP Government passed on a series of winning cards that the current Government has done its best to squander. They include the Council vote on the Constitution, the signing of the Constitutional Treaty, reform of the Stability and Growth Pact, updating of the Lisbon Agenda and even the possibility of vetoing an agreement on the Financial Perspectives if contrary to Spanish interests. The Socialist Government cannot excuse itself by pointing to any 'adverse inherited situation', because the previous government handed over all the aces it could need. The figures are quite clear in this respect: in 1999, Spain won a net balance of 47.500 billion euros for the entire 2000-2006 period, along with structural and cohesion funds to a value of 62 billion euros. The Socialist Government has stated that the Commission's proposal was accepted by the PP Government, which is not true. However, even the Commission's proposal granted Spain 35 billion euros in regional funds, whilst the final agreement hardly manages 31 billion euros, including both the cohesion fund and funds for R+D. The Zapatero Government has also stated that PP government had negotiated poorly on its contribution to the British rebate. At that time, some 1 billion euros were given up in order to compensate for the lower contributions to be made by Germany, Sweden and Holland to the British rebate, but this was done in order to gain a net balance of almost 48 billion euros; now the Government has lost the country 43 billion euros, only to gain 2 billion from the R+D Fund and 3,250 million from the Cohesion Fund.

The final proposal is not only prejudicial from a financial point of view, but it is clearly discriminatory towards Spain and towards the Spanish regions. Other countries, however, have managed to secure preferential treatment.

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