I. Introduction

The European Union is facing one of the biggest challenges since its foundation. While "no" votes from the French and the Dutch to the Constitutional Treaty seemed to have created anxiety across the continent with regards to the Union's future, a new confrontation replaced this issue quickly; and that is a budget battle with no easy solutions, as Baldwin (2005, p.3) calls the conflict as a "postman-bites-dog story."

In 1979, when Britain had few Common Agricultural Policy (CAP) receipts from the European Union because of its small farming sector, then prime minister Margaret Thatcher asked for her country's money back. After many rough negotiations, in June 1984 meeting in Fontainebleau, UK won an agreement to cut its net contribution. Since then, the European Commission has been calculating what UK pays and what it receives every year, and sends 66% of that gap back to London as a rebate, which is worth some €4.6 billion ($5.5 billion) annually.

Britain has made proposals to reform the budget to revise it as a more modern one, which would include shifting money from farm subsidies to rural development grants, and setting up a "shock absorber" fund for workers if they lose their jobs because of global competition. London is willing to give up the rebate only if Paris (and Berlin) would be willing to work on less agricultural support by EU, thus to reshape the CAP. France currently receives about €10 billion from EU, 22% of total agricultural funds which constitute roughly 45% of European Union's budget.

On the other hand, backed by Germany, France and almost the rest of the member states claim that the rebate came out as a result of relative poorness of UK in the 1970s and 80s and that there is no need to send cash back to London after EU became a bloc of 25 member states following the "big bang" enlargement of 2004 and

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when mostly poor newcomers would be in great need for EU funds mainly in their agrarian sector and for their infrastructural development.

The Commission is thinking very much alike Franco-German side. Financial Times (July 1, 2005) reported Mariann Fischer Boel, the EU's agriculture commissioner, as defending the CAP when she underlined the fact that EU farm policy was already undergoing vast reforms that would help lower direct aid to farmers to 0.33% of the EU's gross national income in 2013 from 0.65% in 1988.

According to EU Commission, there is an approximate need of €950 billion ($1.15 trillion), 1.14% of EU's GDP, to cover the financial needs such as various funds and agricultural policies and to foster research and growth between 2007-2013. The Commission's proposal has been whittled down to about €870 billion by the Luxembourg presidency which ended last June. The Greek government agreed with the EU's recommendation, although six EU member states (Germany, Austria, Holland, France, the UK and Sweden) -net contributors to the EU budget- rejected these plans.

Before going further for Athens's perspective on the issue; in order to have a fair idea of Greece's stance, there is a need to lay out this country's receipts of EU funds *vis-å-vis* other beneficiaries and to make comparisons with other member states, which all will be covered in the next section.

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II. Comparisons and the Situation of Greece

EU spending changes significantly among the members, in the amounts the countries receive and in its nature. As of 2003, Spain is the highest recipient of EU funds before France, Italy and Germany. Most of the funds France gets are from the

Common Agricultural Policy (CAP) while cohesion spending is the most vital source for Greece.

In 2004, Greek budget had €4.02 billion inflow from EU under Public Investment Program Revenue, which counted for approximately %2.5 of GDP. This amount is fairly high and symbolically important from the point of view that Greece is in fact one of the few countries in EU receiving a net contribution from the Union. In other words, the difference between Greece pays to EU and gets from it is to the favor of the country.

According to the EU Budget Directorate-General's data (2005), in terms of allocation of EU expenditure, in 2004, Greece received 6.4% of EU's funds in agriculture, 8.3% of structural actions, and 2.7% of the funds in internal policies. With these figures, Greece receives a total of 6.7% of EU's total allocated operating expenditure. After Spain, France, Germany, Italy, and UK, Greece is the sixth largest receiver of EU expenditure in 2004. European Commission confirms this in its press release (2005) that in 2004, the largest recipient of EU funds was Spain (€16.4 billion) ahead of France (€12.9 billion), Germany (€11.7 billion), Italy (€10.4 billion), and the UK (€7.1 billion). Nevertheless, in terms of percent of gross national income (GNI) Greece (3.52% of national GNI) and Portugal (3.35%) received relatively most funds, followed by Lithuania (2.81%), Estonia (2.50%) and Latvia (2.46%). Keeping in mind the fact that the first five are the largest nations in European Union, it can be concluded that Greece fairly benefits from the membership to the Union.

On the other hand, among the member countries, with €4.163,2 million Greece has the second largest positive operating budgetary balance in 2004 after Spain which had a positive operating budgetary balance of €8.502,3 million. Nonetheless, in terms

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of "operating budgetary balance/GNI", Greece was the highest benefactor of EU members with 2.52% in 2004.

The figures become completely different when receipts per capita are taken into consideration. Baldwin (2005) points out that Luxembourg becomes the largest receiver per capita with €2,359 per person. This may seem a lot; however, incomes are very high in this country, approximately twice the EU average at over €50,000 per year in 2003, and the impact is not that high as one might assume. The EU average is €216 per person, which means that apart from Luxembourg; Finland, France, Spain, Denmark, Portugal, Belgium, Greece and Ireland are all above-average recipients.

III. The Budget Row from Greek Perspective

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Compared to relatively rich and powerful nations, Greece is one of the modest members of the Union; politically and understandably, its voice is not too loud especially in order not to fall into one specific part of the bridge. According to European Commission (2004), when EU average in 2003 in terms of purchasing power parity (PPP) was taken as 100, Greece had a purchasing power of 73.0, topping 10 states -apart from Portugal with 67.4, the remaining 9 states joined the Union only last year. The latest budget conflict seemed to occur as a major political and economical confrontation between France and Britain. While Greece would become one of the benefiting states should Britons give up their rebate, it tries not to lay out its situation in a sharp style not to fall apart from London, as Britain historically has been a close ally of eastern European states (according to EU Commission, between 2008-2013 Greece will be cut €200 million for UK correction -eighth highest net budgetary balance from the top-; France will be the leading member state with €1.893

billion reduction, Italy the second with €1.568 billion, and Spain the third with €935 million).

From the perspective of Britain, Tony Blair, too, wants a budget deal since he is aware that failure to get one would badly damage the UK's relationship with east European states who regard a deal as essential if they are to be guaranteed big structural fund receipts. Having said that, Athens was among the others according to Financial Times (November 8, 2005) when European foreign ministers criticised Britain for failing to put concrete proposals on the table and refusing to negotiate on the 21-year-old rebate, worth an average of €4.6 billion (£3.1 billion) in recent years.

Philippe Douste-Blazy, France's foreign minister said that "the further we go away from the Luxembourg compromise, the more difficult it will be to reach an agreement" and emphasized once again that the British rebate, which was opposed by all the EU's other 24 members, was indefensible. Without much interpretation, Greece was among the opposers of London. An article from Financial Times (November 7, 2005) confirms Greece's position claiming that all 24 of Britain's EU partners would like to scrap the rebate, arguing that the country is much richer than it was two decades ago, with even prime minister Blair acknowledging that it has to change. In fact, it was not only the British being politically attacked. Foreign ministers repeatedly defended the compromise package presented in June by Jean-Claude Juncker, the Luxembourg prime minister, which was rejected by countries including Britain, the Netherlands and Sweden.

According to the figures supplied by the European Commission to the European Parliament (Financial Times, June 17, 2005), 10% co-financing rate would amount to a saving from the EU budget of €21.5 billion over seven years. The net effect of reduced EU budget contributions, less the extra national CAP spending,

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helps five of the big net contributors: Germany (by €1.292 billion), Italy (€551 million), the Netherlands (€482 million), UK (€479 million) and Sweden (€157 million). However, this gain is at the expense of France (€1.4 billion), Spain (€1.3 billion) and Greece (€1.1 billion). The new member states would each save a little from the reduced budget because for technical reasons they would not have to fund any Pillar 1 payments.

Greece is one of the significant benefactors of cohesion funds -the closest Europe has to the US system of federal transfers. The fact that the budget issue was not solved during Brussels summit in June, Greece's use of cohesion funds and its amount became unclear. The reason why the budget debate is of great concern for Greece is because under proposals from the EU's Luxembourg presidency, that fund would have amounted to more than €300 billion over the next seven years, or 35% of the budget, benefiting the new member states of eastern Europe and also poor areas in Spain, Greece, Portugal, Italy and eastern Germany. While there are concerns about regional supports within the European Union, such as Sweden which believes that regional aid should mainly be a matter for national governments rather than the EU, Dalia Grybauskaite, the EU's budget commissioner, argues that such an idea would shake European unity. "The nationalisation of policies will divide us," she says. "This solidarity principle is one of the core ones. To abolish such a principle will practically kill the idea of the European Union."

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As given in the first part of this paper, the Luxembourg presidency during Brussels summit decreased the Commission's budget proposal about €80 billion to €870 billion. Nevertheless, this reduction was not enough for France, Germany, the Netherlands, Sweden, Austria and Britain -called the "gang of six" paymasters- which wanted it capped at about €800 billion. This is a critical issue from Greek perspective

as the biggest potential savings are in the €336 billion for aid to poor regions and severe reductions would heavily impact eastern and southern Europe.

Having mentioned that, the aim of the new fiscal framework is to promote convergence by offering financial support to regions with per capita GDP less than 75% of the average expanded EU during the last three years, while cohesion fund interventions will continue offering financial support to EU member states with per capita GDP less than 90% of the EU average. That becomes critical for Greece, which along with other EU states, will probably lose money from cohesion funds since certain regions of the country are reporting per capita GDP exceeding 75% of the EU average. The Commission and member states are currently seeking a gradual phase out period. Central Greece and South Aegean will be excluded from the convergence program, while three more regions (Central Macedonia, Western Macedonia and Attica) risk losing financial support from EU funds (Athens News Agency, April 26, 2005).

In conclusion, the deadlock of budget debate concerns Greece and Athens wants to move forward with the EU budget. Indeed, this was reiterated in Prague in August when Greek Prime Minister Konstantinos Karamanlis and his Czech counterpart Jiri Paroubek favored a rapid agreement on the European Union's 2007-2013 budget. “We are interested in the discussions being completed this year from a financial perspective,” Paroubek said at a joint press conference. “For us it is important to agree with other EU countries. We and the Czech Republic ... have very similar views,” Karamanlis added (http://europa.eu.int/index_en.htm, 2005).

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IV. Beyond the Row and a Broader Look for Future: Benefiting from Budget Battle

Some scholars believe that, even if not today, the budget priorities will have to change in the future. Baldwin (2005) argues that the final outcome of EU's budget battle will end with a shift of budget priorities from agriculture towards structural spending, with an overall size of budget reduction. This kind of change in the budget might be a new phase for relatively poor nations of EU, such as Greece, encouraging to modify the national policies and improving the understanding of quality and implementation of structural projects.

According to the National Reform Program (NRP) for Growth and Jobs (2005-2008) prepared by the Greek Ministry of Economy and Finance, the strategy of the NRP 2005-2008 as regards the CSF (Community Support Framework) spending is primarily linked to the operational and implementation level. The Greek government's perspective is that the main target is to effectively incorporate the Lisbon priorities into the current period's interventions until the completion of the CSF (2008), as well as to use the CSF as a tool for achieving the national priorities set in the current NRP. Accordingly, the new focus will be on the actions of supporting the final beneficiaries of the projects. The program concludes that there is a need to focus on certain priority areas and the identification of these areas with a number of possible policy choices would be inevitable.

Like in the case of Greece, while countries with relatively higher agricultural structures cannot change their national positions in a short span of time, there is a clear move in the world economy from agricultural emphasis to knowledge-based systems. The Greek authorities acknowledge that the latter will be the source of future competitive advantages. The NRP attracts the attention to promoting

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institutional and administrative reforms in order to create the necessary conditions for achieving priorities of Greece which will help create multiplier effects thanks to the use of the available funds from the European Union.

The Greek business community believes that as European Union transfers shrink, sustained growth will depend on boosting trade and investment in south-east Europe. Even before the EU budget crisis, Greece's share of the 2007-2013 structural aid package was expected to fall by at least 35% from the current five year, €27 billion allocation as future disbursements are directed toward central and east European member states (Financial Times, June 21, 2005). Greek people, businesses in particular, are aware of the fact that their government is forced back on the reform track by the need to comply with EU directives and international business practices. After hard negotiations with the European Commission, Greece agreed to hand back €518 million of grants from the current structural aid package because of irregularities in procedures for studies and tenders.

Greece has been affected by the budget row but it is also aware that even declining funds from Brussels may not cause a negative impact on the country with Bulgaria and Romania due to join the EU in January 2007, or perhaps a year later. Greece expects to gain from sharing a land border with another member state as Evripidis Stylianidis, deputy foreign minister for Balkan affairs, mentions the potential for cross-border activity in tourism and services according to Financial Times (June 21, 2005).

Accelerating economic growth in southeast Europe, where Athens based companies are credited with creating more than 100,000 jobs, and increasing Greek recognition of the economic contribution made by over one million immigrant workers -about half from Albania- has helped ease frictions. Yet the prosperity gap is

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still wide, with average per capita income in the region less than one-fifth the level in Greece.

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