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# **The Implications of EU Enlargement for Northern Ireland**

Briefing Paper

Commissioned by:

**Concordia**  
Partnership for Progress



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## 1 EXECUTIVE SUMMARY

### **Background**

On 1st May 2004 ten new countries - Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia - joined the European Union creating a single market of over 450 million people.

These new member States have a much lower level of development with average per capita Gross Domestic Product (GDP) at only 39 percent of that of the previous 15 Member States (EU15).

### **Reform of Common Agricultural Policy**

One of the implications of Enlargement has been the need to reform certain EU policies such as Common Agricultural Policy (CAP).

The agreement on CAP reform reached in 2003 was a major breakthrough; it achieved far more than many expected, freeing farmers to produce what the market and consumers want rather than what the subsidy regimes dictate.

The deal also means more resources for wider rural development goals, reflecting citizens' demands to focus on the environment, food safety and quality. The proposal will increase funding, amounting to total EU funding of € 13.7 billion per year for 2007-2013.

### **The growing diversity of the EU**

The 2004 enlargement will distinguish itself from previous enlargements in terms of the growing diversity of the EU. The average income level of the ten accession countries is less than half of the average GDP per head of the current Member States.

Enlargement will ultimately entail free labour mobility between the new member states and the EU15. Most studies to date however suggest that the inflow of migrants will be quite modest.

Enlargement will slightly reduce the average employment rate in the European Union from about 64.3% to 62.4%.

The impact of enlargement on the employment and social situation will need to be closely monitored. It is clear that the ten accession countries have chosen to sign up to a constitutional framework, in which the improvement of social standards, including through social dialogue and social regulation forms an important part.

Enlargement will also improve human rights practice as the new Member States have had to align their human rights law and practices with EU standards.

Enlargement will help to boost co-operation between EU 15 and the new Member States on tackling organised crime, drug trafficking and people smuggling. New members states have been bringing their police forces and border controls up to EU standards and will participate in EU anti-crime institutions.

The 2000 Lisbon Summit gave the European Union a decade long strategy for economic and social renewal. A year later, at Gothenburg, the EU's Sustainable Development Strategy added an environmental dimension to the Lisbon Strategy.

Enlargement should provide impetus for the rest of the EU in the process of economic reform and liberalisation that forms the wider Lisbon Agenda. These effects have the potential to raise the productive capacity of the enlarged EU as well as leading to a more efficient allocation of resources. They are potentially much more significant than the benefits flowing from increased trade, and provide the most promise of gains in the long run.

### **The economic effects of enlargement**

The economic effects of enlargement will be more profound for the ten new member states than for the previous EU 15. The strongest effects in terms of trade will be felt by the member states that border the new member states eg. Germany and Austria.

Fears have been expressed about EU firms losing markets to more cheaply produced goods from the new member states.

But accession itself should bring further benefits. As members of the European Internal Market, the new member states will have to comply with EU technical standards and state aids which will contribute to the final removal of the non-tariff barriers to trade. Accession should mean fairer competition.

The larger Internal Market means that firms can expand production, and take advantage of economies of scale. More competition should also lead to more choice and lower prices for consumers.

Enlargement will considerably enhance the attractiveness of the new member states as a location for export oriented foreign direct investment (FDI).

The accession countries have small growing economies that are relatively untapped by Northern Ireland's exporters. While trade between the new member states and the EU15 has undergone rapid growth since the mid 90 the value and proportion of Northern Ireland's exports to CEE countries remains very low at 3.3%. There are also attractions for NI business to invest in the ten new member states.

The sectors deemed to be at threat from enlargement are the already declining sectors facing low cost competition from the new members states.

### **Environmental implications**

Enlargement will improve environmental standards across the continent. It will increase health and safety standards, including food safety and quality of food exports to the UK, consumer protection and employment practice.

Policy development in the environmental field however is expected to be slowed sharply by the expansion of the EU. The ten new member states will receive transitional periods for a raft of upcoming legislation such as revised packaging waste rules, electronic waste and the new chemicals strategy.

Helping the new countries to comply with EU environmental legislation will bring benefits in terms of public health through the improvement of air quality, access to safe drinking water and the closure of illegal, unhealthy landfills.

### **Reform of the institutions and decision making processes**

Reform of the institutions and decision making processes was seen as necessary to facilitate efficient working procedures after enlargement.

On 18<sup>th</sup> June 2004, under the Irish presidency, EU leaders reached agreement on a new Constitutional Treaty for Europe at the European Council in Brussels.

The constitution brings together for the first time the many treaties and agreements on which the EU is based. It defines the powers of the EU, stating where it can and cannot act and where the member states retain their right of veto. It is a hard-won compromise between those who would like much more integration and those who want to preserve the rights of the nation state.

The Constitution however will not come into force until it has been ratified by all 25 Member States, in some cases by referendum. It may well face a bigger battle to get ratified than it did to get agreed.

### **Financial Assistance to Northern Ireland**

Enlargement will have a very marked effect on the financial assistance available to Northern Ireland through the Structural Funds as NI will no longer qualify for objectives 1 status. This is also due to growth of the NI economy which is above the threshold for maximum support. The next programming round will therefore inevitably mean a significant reduction for Northern Ireland in financial support from the European Union.

### **The Cost of enlargement**

Several analyses have arrived at estimates of a net cost of enlargement to the EU budget of around 20 billion euro per annum.

In the longer term enlargement should raise the overall prosperity of the people of the European Union of 25. The transition period in the shorter term may prove difficult for some sectors and localities.

## 2 BACKGROUND TO ENLARGEMENT PROCESS

On 1st May 2004 ten new countries - Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia - joined the European Union creating a single market of over 450 million people. The population of the European Union has increased by 28% and the land mass by 33%. Negotiations are currently underway with Bulgaria and Romania who are due to join in 2007.

Enlargement of the EU however is not a new concept. From an original EC membership of six in 1958 including Belgium, France, West Germany, Italy, Luxembourg and the Netherlands, the EU has gradually expanded to its current total of 25 Member States.

The previous four enlargements since 1958 have brought in:

- 1973 Denmark, Ireland and the UK
- 1981 Greece
- 1986 Spain and Portugal
- 1995 Austria, Finland and Sweden

There are however a number of major differences in the recent Enlargement. Just over a decade ago, six of the eight Central European states did not even exist. One of them was at war. There is a much lower level of development in the new member States with average per capita Gross Domestic Product (GDP) at only 39 percent of that of the previous 15 Member States (EU15).

### 2.1 Recent developments in the new member states

After the fall of the Berlin Wall in 1989 and the opening of Europe's borders to the east, the newly independent countries of Central and Eastern Europe (CEECs) stated their desire to join the European Union.

Since the start of the accession process over ten years ago, the GDP of candidates from the former Communist bloc has grown by 40%. The standard of living in Central Europe has increased dramatically, e.g. the average Slovenian salary has increased by 62% in the last ten years.

Since breaking away from communist rule in 1989, central European economies have rapidly integrated themselves with Western Europe and world markets. In 2001, 67% of the candidates' goods exports went to, and 59% of their goods imports came from, the EU 15.

The enlargement process has helped the new members to address issues ranging from protection of minority rights, to the safety of nuclear power stations, to hygiene in dairies. They had to reform and significantly strengthen their administrations and court/legal systems.

The negotiations also encouraged profound changes in the business environment – e.g. the creation of food standards agencies, telecoms regulators, labour inspectorates, insurance market supervisors etc.

### 3 CHANGES IN EU POLICIES

One of the implications of Enlargement has been the need to reform certain EU policies. The two areas covered in this report are the Common Agricultural Policy (CAP) and the Lisbon agenda.

#### 3.1 Common Agricultural Policy

Reform of the CAP was seen as necessary for a number of reasons:

- Trade and policy issues between the new member states and the EU15 are more important in this sector than in any other.
- The agri-food sector falls within a complex framework of instruments under the CAP, veterinary, phytosanitary and other policies which have particular significance for accession, e.g. budget, price levels, trade, WTO and consumer issues.
- Agriculture is still a very dominant sector in quite a number of candidate countries and is also characterised by low productivity, a considerable element of subsistence farming, and underemployment.

The agreement on CAP reform reached in 2003 was a major breakthrough; it achieved far more than many expected, freeing farmers to produce what the market and consumers want rather than what the subsidy regimes dictate.

The reforms provide the opportunity to reduce the bureaucracy farmers face, by rolling a plethora of subsidies into a new single payment which is not linked to what they produce.

It aims to reduce the environmental impact of farming by removing an incentive to intensify production and by linking subsidy to compliance with environmental and other standards.

A recent conference organized by the European Commission in Salzburg last year reached broad consensus around three key objectives:

- A competitive farming sector: Sustainable economic growth in farming must come increasingly through diversification, innovation and value added products
- Managing the land for future generations: Managing the farmed environment and forests should serve to preserve, enhance the natural landscape and Europe's cultural heritage

- A living countryside: Investment in the broader rural economy is vital to increase the attractiveness of rural areas, promote sustainable growth and create new employment opportunities through diversification

In February 2004 the Northern Ireland Minister with responsibility for Agriculture and Rural Development, Ian Pearson, MP announced the options that Northern Ireland would implement under CAP reform.

#### Rural Development

The deal also means more resources for wider rural development goals.

On 15<sup>th</sup> July 2004 the European Commission published proposals for the EU's future rural development policy.

Reflecting citizens' demands to focus on the environment, food safety and quality, the Commission wants the EU's rural development policy to play a more important role in the new, reformed Common Agricultural Policy (CAP). The proposal will increase EU funding, amounting to total EU funding of € 13.7 billion per year for 2007-2013.

By introducing a single funding and programming instrument, the new policy will be much simpler to manage and control. Member States and regions will have more freedom as to how to implement the programmes.

The main features of the new rural development policy are:

- One funding and programming instrument, the European Agriculture Rural Development Fund (EARDF)
- A genuine EU strategy for rural development with better focus on EU priorities
- Reinforced control, evaluation and reporting. Clearance of accounts audit system will be extended to all parts of rural development
- A strengthened bottom-up approach. Member States, regions and local action groups will have more say in attuning programmes to local needs

The three main objectives of rural development will be:

- **Axis 1: Improving competitiveness of farming and forestry**
- **Axis 2: Environment and land management**
- **Axis 3: Improving quality of life and diversification**

Examples of activities under Axis 1: Improving competitiveness of farming and forestry include:

- improving and developing infrastructure related to the development and adaptation of agriculture and forestry
- supporting farmers who participate in food quality schemes
- setting up of young farmers
- support for semi-subsistence farmers in new Member States to become competitive

A minimum of 15% of the national envelope has to be spent on Axis 1. The EU co-financing rate is maximum 50% (75% in convergence regions).

Examples of activities under Axis 2: Environment and land management include:

- natural handicap payments to farmers in mountain areas
- NATURA 2000 payments
- agri-environment measures
- animal welfare payments

Agri-environmental measures will remain compulsory. Beneficiaries must respect the EU and national mandatory requirements for agriculture and forestry.

A minimum of 25% of the national envelope has to be spent on Axis 2. The EU co-financing rate is maximum 55% (80% in convergence regions).

Examples of activities under Axis 3: Improving quality of life and diversification include:

- diversification to non agricultural activities
- support for the creation of micro enterprises
- encouragement of tourism
- village renewal

A minimum of 15% of the national envelope has to be spent on Axis 3. The EU co-financing rate is maximum 50% (75% in convergence regions).

#### **New approach for LEADER**

Each programme must have a LEADER element for the implementation of local development strategies of local action groups. A minimum of 7% of national programme funding is reserved for LEADER. 3% of the overall funding for the period will be kept in reserve and allocated in 2012/13 to Member States with the best results.

### 3.2 Lisbon agenda

In 2000, Europe's heads of state declared their ambition to adopt the "Lisbon Strategy" to make the European Union the "most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable economic growth with more and better jobs and greater social cohesion."

The Lisbon Strategy focuses on seven dimensions of competitiveness, namely the creation of an information society; the establishment of a European area for R&D; the completion of the single market for services and network industries; the introduction of efficient and integrated financial markets; the strengthening of entrepreneurship through reduced regulatory burdens; social inclusion; and sustainable development.

The 2000 Lisbon Summit gave the European Union a decade long strategy for economic and social renewal. A year later, at Gothenburg, the EU's Sustainable Development Strategy added an environmental dimension to the Lisbon Strategy.

However nearly four years into the EU's Lisbon economic reform agenda, the EU remains far from meeting its goal despite recent progress in energy liberalization, financial services integration and the adoption of a Community Patent.

The EU is struggling to meet its ambitious targets for raising employment rates for women and older workers or increasing expenditure on research and development. It has encouraged the spread of new technologies and most members states have removed barriers to business creation.

Most of the new member states have spent the last ten years rapidly liberalising their economies. Enlargement should provide impetus for the rest of the EU in the process of economic reform and liberalisation that forms the wider Lisbon Agenda. These effects have the potential to raise the productive capacity of the enlarged EU as well as leading to a more efficient allocation of resources. They are potentially much more significant than the benefits flowing from increased trade, and provide the most promise of gains in the long run.

## 4 IMPLICATIONS FOR THE EUROPEAN UNION

Enlargement means a number of changes for the European Union. As well as the policy changes highlighted above the implications for the EU can broadly speaking be categorised in the following areas:

- Economic implications
- Social implications

- Environmental implications
- Administrative & procedural implications

#### 4.1 Economic implications

The Economic implications cover issues such as trade, foreign direct investment and labour migration.

##### 4.1.1 Trade

The economic effects of enlargement will be more profound for the ten new member states than for the previous EU 15. The strongest effects in terms of trade will be felt by the member states that border the new member states eg. Germany and Austria.

The area of the EU under agricultural production has increased by 33% and the number of farmers has doubled from EU 15. Farming now employs more than 13 million people directly, and more than 5 million indirectly in its upstream and downstream sectors. Processed agrifood products also make up a growing share of trade within the EU.

The freeing up of trade in agriculture and food, it is generally agreed, will lead to the expansion of the food processing sector in CEEC countries at the expense of food processing in the EU 15. Studies to date agree that CEEC sectors such as textiles, clothing and footwear and some engineering trades stand to benefit, generally to the detriment, in varying degrees of other EU member states.

The major EU15 sector that is predicted to expand is Machinery and Equipment, in which the EU had a strong trade surplus with the CEEC. This will receive a further boost from increased investment expenditures in the new EU member states.

Fears have been expressed about EU firms losing markets to more cheaply produced goods from the new member states. In reality a sudden flood of cheap imports is unlikely because the new member states have already enjoyed tariff free access to EU markets, and much of the impact of increased competition in lower value goods has already been felt. Accession should mean fairer competition.

But accession itself should bring further benefits. As members of the European Internal Market, the new member states will have to comply with EU technical standards and state aids which will contribute to the final removal of the non-tariff barriers to trade. A significant effort will be required by the European Commission to ensure compliance with these standards so that businesses in the older member states are not disadvantaged.

The larger Internal Market means that firms can expand production, and take advantage of economies of scale. More competition should also lead to more choice and lower prices for consumers. As income levels in the accession states move towards the EU average, as with previous waves of accession, the purchasing power of consumers should grow, creating new opportunities for exporters.

#### 4.1.2 Foreign Direct Investment

Enlargement will considerably enhance the attractiveness of the new member states as a location for export oriented foreign direct investment (FDI). However liberalization of world trade rules will see even lower relative costs of production outside the enlarged EU for example in the Far East.

There have been worries that the EU 15 will lose out to the new member states in attracting foreign direct investment. In fact member states are all competing for FDI in a world market where many factors other than labour costs are important: infrastructure, skills, the levels and complexity of corporate taxes, and access to finance are examples of other aspects investors will consider.

There will be an inevitable shift of low value, labour intensive production to lower wage economies including, sometimes, the new EU member states. The EU 15 cannot look to compete on the basis of reducing costs to the lowest possible level, but instead on the basis of high value and high skill. Foreign direct investment flows into and between countries in an expanded EU are not part of a zero-sum game – a high proportion of investment in the new member states will be to take advantage of profitable opportunities or for serving local markets which are additional to those operations based in other EU15 countries.

#### 4.1.3 Migration issues

Enlargement will ultimately entail free labour mobility between the new member states and the EU15. Most studies to date however suggest that the inflow of migrants will be quite modest for countries other than Germany and Austria, and that even in these latter countries the economic effects, whether positive or negative, will not be substantial. Several studies suggest that German GDP per head would fall by only 0.8 percent even if all CEE immigrants to that country were low skilled.

Consensus estimates suggest that no more than 3 million Central and Eastern Europeans will migrate to Western Europe over the next 15 to 20 years. This would comprise 1 percent of the EU population and 2 to 3 percent of the CEEC population.

In conclusion, on top of the broader geo-political gains, enlargement should bring economic benefits to the EU15 as well as to the new member states. While these are limited in scale, they are not insignificant. The new member states are relatively poor at the moment, but their economies have been growing faster on average than existing member states. As the income levels of the new member states move towards the EU average and purchasing power increases, there will be opportunities for further growth in EU15 exports of goods and services.

## 4.2 Social implications

The 2000 Lisbon Summit gave the European Union a decade long strategy for economic and social renewal. In addition, it identified the unsustainable nature of certain social trends and the need to promote social inclusion as part of the Sustainable Development Strategy. The Social Policy Agenda initiated by the Commission in June 2000 posed the question as to how the European social model can be modernised and improved to better cater to existing and new social needs.

This requires attention to social rights and social equity, as it calls for welfare systems to be adapted to facilitate economic transformation, granting individuals the opportunity to realize their full potential.

The EU's response in light of enlargement will shape the changes which are affecting every aspect of people's lives in a manner consistent with the EU's values and concepts of society.

The 2004 enlargement will distinguish itself from previous enlargements in terms of the growing diversity of the EU. The average income level of the ten accession countries is less than half of the average GDP per head of the current Member States.

Enlargement will slightly reduce the average employment rate in the European Union from about 64.3% to 62.4% for the EU25, more than 7.5% below the Lisbon target for 2010. However countries like the Czech Republic and Cyprus have already employment rates above the EU average.

One element that featured strongly in the public debate on accession is labour mobility in an enlarged Europe. Past experience shows that fears of mobility at previous rounds of enlargement were unfounded. On the contrary, the developments in those countries meant that many previous migrant workers actually returned to the home country, following EU membership.

The impact of enlargement on the employment and social situation will need to be closely monitored. It is clear that the ten accession countries have chosen to sign up to a constitutional framework, in which the improvement of social standards, including through social dialogue and social regulation forms an important part.

Enlargement will also improve human rights practice as the new Member States have had to align their human rights law and practices with EU standards.

Enlargement will help to boost co-operation between EU 15 and the new Member States on tackling organised crime, drug trafficking and people smuggling. New members states have been bringing their police forces and border controls up to EU standards and will participate in EU anti-crime institutions.

### 4.3 Environmental implications

Enlargement will improve environmental standards across the continent. It will increase health and safety standards, including food safety and quality of food exports to the UK, consumer protection and employment practice.

Policy development in the environmental field is expected to be slowed sharply by the expansion of the EU. The ten new member states will receive transitional periods for a raft of upcoming legislation such as revised packaging waste rules, electronic waste and the new chemicals strategy.

Levels of pollution in the new member states are significantly higher than those in the EU15, where strict European environmental laws have been applied for many years. But though the new member states have not had the benefit of years of environmental protection, they are catching up fast. In preparation for EU membership, the candidate countries have had to work hard to bring their environmental laws and standards into line with those in the EU. In these preparations, particular assistance has been given to the Environmental Ministries of the acceding countries to raise the profile of environmental policy in their countries.

Helping the new countries to comply with EU environmental legislation will bring benefits in terms of public health through the improvement of air quality, access to safe drinking water and the closure of illegal, unhealthy landfills.

Enlargement will mean a much wider space applying the most ambitious environmental policy and laws in the world. These benefits include:

- Better public health: as people are less exposed to air pollution, the number of respiratory diseases and premature deaths diminishes.
- Less damage to forests, fields and fisheries, and to buildings, as acid rain and other forms of pollution decrease.
- Cleaner water
- Safer and sounder waste management: public health will improve because of lower emissions and leakage from landfills.
- Protected natural areas will increase, and the protection will cover a wide range of species.

In terms of bio-diversity, the new countries have a large variety of eco-systems and well preserved natural resources, extensive unspoiled regions with species that have almost or even totally disappeared in the present EU member states.

Their agriculture practice is in general more organic and less intensive than in Western Europe, using less chemical fertilisers, herbicides or pesticides.

#### 4.4 Administrative implications

In preparation for Enlargement to 25 member states the EU recognized the need to reform the institutions and decision making processes as these were originally designed for six member states. Reform was seen as necessary to facilitate efficient working procedures after enlargement.

In February 2002 the European Convention made up of representatives from all member states came together to develop and agree a draft Constitution. This draft was subject to negotiations between Member States. On 18<sup>th</sup> June 2004, under the Irish presidency, EU leaders reached agreement on a new Constitutional Treaty for Europe at the European Council in Brussels.

The constitution brings together for the first time the many treaties and agreements on which the EU is based. It defines the powers of the EU, stating where it can and cannot act and where the member states retain their right of veto. It is a hard-won compromise between those who would like much more integration and those who want to preserve the rights of the nation state.

The result is something of a balance between those two objectives and as a result, change is incremental not revolutionary. The European Union of the future will not seem that much different from the European Union of the present.

The Constitution however will not come into force until it has been ratified by all 25 Member States, in some cases by referendum. It may well face a bigger battle to get ratified than it did to get agreed.

### 5 IMPLICATIONS FOR NI

Enlargement represents an important political change for the European Union. The main implications for Northern Ireland are most likely to be felt in the following areas:

- Economic
- Financial assistance from Structural Funds

#### 5.1 Economic

A recent study by PwC for DETI concluded that the economic effects of enlargement on NI will be relatively limited. However Enlargement opens up new export, investment and outsourcing opportunities for businesses in Northern Ireland.

### 5.1.1 Taking advantage of the opportunities

The accession countries have small growing economies that are relatively untapped by Northern Ireland's exporters. While trade between the new member states and the EU15 has undergone rapid growth since the mid 90 the value and proportion of Northern Ireland's exports to CEE countries remains very low at 3.3%.

In the UK as a whole trade is growing fast, since 1990, UK trade with the ten candidate countries has increased by over 400% compared with a 43% increase in trade with the rest of the world.

Northern Ireland firms could benefit from

- Removal of trade barriers
- Increased purchasing power of new members states
- Access to new virtually untapped markets
- Opportunities to establish supply chains
- Opportunities to tap into remaining Eastern Europe and Russian Markets
- Opportunities to help accession countries prepare for and implement the changes required.

The recent report by PricewaterhouseCoopers identified a number of sectors offering potential opportunities from enlargement. These include the area of Research and Development as well as three growing sectors:

- Computer and related activities
- Manufacture of medical, precision and optical instruments and
- Other business services

Taking advantage of the opportunities arising from enlargement will require a coordinated effort to ensure the economy has the capacity and is ready to adapt to the demands of these growing sectors. Additional investment in training and skills development may be required

There are also attractions for NI business to invest in the new member states:

- they offer political and macro-economic stability and a skilled and educated workforce compared to many other emerging markets;

- they are geographically close to the UK and offer free access to EU markets; and
- while their labour costs are not especially low in global terms they are competitive compared with much of the current EU.

### 5.1.2 The sectors most at threat

The sectors deemed to be at threat from enlargement are the already declining sectors facing low cost competition from the new members states eg:

- Manufacture of wearing apparel and textiles
- Manufacture of radio, television and communication equipment
- Manufacture of engineering and other transport equipment
- Manufacture of food products, beverages and tobacco

While the food processing sector at the EU15 level is seen as vulnerable, it would be wrong to conclude that the Northern Irish sector is also threatened primarily by enlargement.

Food processing relies primarily on local agricultural inputs. The vast bulk of agricultural output from Northern Ireland is of beef and dairy products, with cereals comprising only a small proportion, while the vast bulk of CEEC output is of cereals and pork. It can be surmised therefore that Irish and CEEC food processing will not be in direct competition.

While this sector may suffer by the withdrawal of export subsidies, the growth of the CEEC sector will not damage the Irish sector nearly as much. In fact, Irish agribusiness exports to CEE countries at present are relatively insignificant. If accession yields the expected growth benefits to the CEEC, Irish food processing sector may have the opportunity to make gains.

Changes to the food processing trade may also occur through the reform of the CAP. The decoupling of farm subsidies from production may lead to a change in beef production which in turn could have serious implications for the meat processing trade.

## 5.2 Financial assistance from Structural Funds

Enlargement will have a very marked effect on the financial assistance available to Northern Ireland.

Since 1989 Northern Ireland has qualified for maximum financial support from the European Union Structural Funds as an objective 1 region with additional support from the Peace I and Peace II programmes.

### 5.2.1 Future proposals from the European Commission

In February 2004 the European Commission published its Third Report on Economic and Social Cohesion. This report assesses the impact of European Structural and Cohesion funds on the regions of the EU and makes recommendations for future funding in the period 2007-2013. The report recommends a more simplified system of objectives and funds with three priorities

- **Convergence** supporting growth and job creation for the least developed member states and regions with a GDP less than 75% of the EU average. (Mostly new member states). Current proposals indicate that 78% or EUR 264 billion will be concentrated on this objective
- **Regional Competitiveness and Employment** open to all regions not eligible for the convergence priority. These would be managed at member state level. Around 17% or EUR 57.9 billion are suggested for this objective.
- **Territorial Cooperation** building on the success of INTERREG with an increased budget and special cross border regional authorities to manage these programmes. Around 4% or EUR 13.2 billion will be spent for this priority.

On 15<sup>th</sup> July the European Commission published proposals for the new regulations which set out the rules for the management and implementation of the new programmes.

The European Commission has put the proposals on the table at this time in order to create the conditions for final decisions by the Council and the European Parliament in 2005. In this way, it is hoped that the Member States and regions will have adequate time for the preparation of new programmes for implementation from the beginning of 2007.

The next 18 months will see negotiations with member states over priorities, allocations, management and delivery methods.

The Commission proposals have mainstreamed many of the activities under the current community initiatives.

LEADER: See section 2.1.1 for more information on mainstreaming LEADER.

INTERREG: See Territorial cooperation priority above for more information.

URBAN: the Commission have made a number of proposals which aim to integrate the URBAN approach into the new programmes. Regional programmes will have specific

eligibility for urban regeneration issues and they will have to indicate how urban actors will be dealt with and how responsibilities will be delegated.

### 5.2.2 Implications for Northern Ireland

The next programming round will inevitably mean a significant reduction for Northern Ireland in financial support from the European Union.

The third Cohesion report shows that in 2001 Northern Ireland's GDP per head of population was 82.4% of the EU 15 average and 90.4% of the EU 25.

This means that Northern Ireland would not be eligible for support from the new convergence priority.

It would however be able to participate in a regional ERDF programme and the UK national ESF programme through the Regional competitiveness and employment priority. In the current proposals this priority would be managed at a national level with only limited input from the European Commission at strategic level.

Northern Ireland would also be eligible for a future Territorial cooperation programme.

As well as mainstream Structural Funds programmes Northern Ireland has also benefited from additional funding through the Peace I and Peace II programmes.

On 18th June 2004 Minister Brian Cowen TD and Minister Ian Person MP announced that, following a request from the two Prime Ministers at the European Council meeting in Brussels, the EU Commission will now be examining the possibility of extending the Peace II Programme by 2 years to 2006. This will require the support of the other member states.

The SEUPB launched a consultation process on the possible extension to the Peace II programme at the end of the July 2004. Further details can be found at <http://www.seupb.org/consultation.htm>

In relation to any special Peace programme in the new financing period 2007 –2013, this is seen as technically very difficult at present. Any special support would have to be funded from the Regional competitiveness priority. The UK position at present is that this priority as a whole is not necessary. The UK government believes that Structural Funds in future should concentrate on the new Member States. They believe that regional funding for richer member states represents an unnecessary "recycling" of funding from member states, through the European Commission, and back again.

Any decision on a future special programme in the new programming round will require a serious, coordinated approach by the UK and Irish governments. A special case would have to be made by Northern Ireland to the European Council which would require the support of other member states and the European Parliament.

### 5.2.3 Applying the learning from the EU programmes

Northern Ireland has benefited from more than the direct financial assistance from the European Union. The non financial benefits have included:

- innovative and decentralized delivery systems
- increased participation in decision making at the planning, implementation and monitoring stages.
- Access to new ways of working
- Development of interregional and transnational networks

One of the challenges for Northern Ireland is to try and capture and apply the learning from the current programmes to future support, both EU and mainstream public expenditure programmes.

The European Commission have proposed a more simplified management system for future EU programmes however the role and value of partnership and social partners in the design, delivery and monitoring of programmes is still seen as essential.

## 6 FINANCING ENLARGEMENT

The main expenditure items in the EU budget are the Common Agricultural Policy, accounting for around half of the budget, and the Structural (and Cohesion) Funds which account for approx a further 30 percent.

Several analyses have arrived at estimates of a net cost of enlargement to the EU budget of around 20 billion euro per annum.

The EU15 member states agreed a package of 25bn between 2004 and 2006 for the 10 new members states– roughly 3% of their GDP per year. This represents a total cost to EU15 of just 0.1% of EU GDP.

The package focused on the applicants' developmental needs; and was in line with their capacity to absorb EU funds. It aimed to ensure that every candidate would be significantly better off after enlargement.

The agreement on financial perspectives for 2007-2013 will have implications for the EU budget and the UK's commitments to the European Union. This may have a knock on effect on the NI budget.



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