“What’s Europe done for us?”

Mr. Chairman, Ladies and Gentlemen,

Let me say first of all what a pleasure it is to be here, not only in Christchurch but also in New Zealand, a country I have a deep affection for. My initial plans had been to spend at least a week here but the General Election in the UK means I need to be back to help out before Election Day.

My affection for your country stems from the fact that I come from Wigan in Lancashire, a hotbed of Rugby League football. I grew up with the names of Cec Mountford and Brian Nordgren on everyone’s lips, two prolific New Zealanders who played for Wigan just after the war. Before them there had been the legendary Lance Todd, Charlie Seeling and Len Mason, and I have witnessed the likes of Graham West. Frano Botica and Henry Paul being members of great Wigan teams. So I owe you a lot.

Although in the week that Wigan have sacked Frank Endecott as Coach who is one of Christchurch's favourite sons maybe I shouldn't be talking so much about Wigan rugby league club.

Also, when I left School and joined the Merchant Navy, I had to spend three years in College training to be an Engineer, at the same time a pal of mine had joined the NZSC as a galley boy, going immediately to sea and travelling to New Zealand, which made me immensely jealous. I have always wanted to come here ever since then, almost forty years ago. I managed it last year for the first time and loved it. That’s when I met

Martin Holland and was pleased to hear of the work being done here concerning the EU.

As a member of the European Parliament since 1989, I used to say that I had the best job in the world. For almost two years now I have been Chairman of the Budget Committee and it's better than the best job in the world. If you are in politics you are in it for power – the power to change things, the power to help the people your represent – and the European Parliament has real power especially in the area of budgetary matters. I have no desire to go into Westminster politics, (unless of course a government position was being offered), MEPs have far more influence than the average backbench MP.

However, the public perception in the UK of the EU is not a good one. If politicians are seen as the lowest form of life, let me assure you that when you have the word European between the M and the P you're lower than the lowest form of life. I may have the best job in the world but the sad part is that in the UK nobody knows and worse still, nobody cares.

Can you remember the scene in the film "The Life of Brian" when the question is asked, "What've the Romans ever done for us?" The reply comes back that they've given them fresh water via the aqueducts. So the question becomes 'Yeah, but apart from fresh water what have the Romans ever done for us?" What about the excellent road system. "Yeah, but apart from roads and fresh water what have the Romans ever done for us?" And so it goes on. It's not a dissimilar scenario when it comes to the question "What's Europe ever done for us?"

In the Merseyside area that I represented the answer is A LOT. I could quote figures about millions invested in job creation measures, in infrastructure, in training, in new offices and factories. I could go on at length about legislation that emanates from Europe on employment rights, on environmental issues, on consumer protection, on equal opportunities and many other things. I could state the case for economic performance since 60% of UK trade is now with the EU. I could make the point that the EU is the single biggest donor of aid to the third world. It is the largest donor to South Africa for its Reconstruction and Development Programme, and was the biggest donor during the Apartheid years to NGOs, churches and trade unions working with non-white South Africans. I could make the point that the EU-ACP agreement with 78 African, Caribbean and Pacific nations is a unique treaty for trade, aid and co-operation.

I could say all of those things but there is one overriding issue that counts far more than all the rest. That is the fact that Europe has lived in peace for the past 56 years (taking the Balkans out of the equation). A continent whose history is littered with wars, whose disputes were settled with bullets and bombs or swords or spears or arrows now, settles its disputes with words. I am 55 years old next month and mine is the first generation that has never been involved in a war in Europe, and that is nothing short of a miracle.

When I speak to schools or colleges I usually ask who has seen the film “Schindlers List” and then explain that that was happening 56 years ago and still happens today in places like Bosnia and Rwanda. Then I ask who has seen “Saving Private Ryan”, a film were the first half-hour shows the horror of war in all its gory detail. Most of them have. Then I say if they ever get the chance they should visit the war graves of the two great wars. If you go to Normandy especially the American war Cemeteries, the headstones spread forever. When you look at the ages of those young men you'll see 17, 18, 19, 20. Each war wipes out a generation of young people. Finally I say go to Ypres and look at the Menin Gate which has on it the names of 56'000 British and Commonwealth soldiers whose bodies were never found. How can you loose 56'000 bodies in four years?

We shouldn't forget the fact that during the First World War about half the total male New Zealand population aged between 20 and 45 fought in Europe. Of these soldiers 60 percent were killed or wounded, which means that the New Zealanders suffered relatively higher military casualties than the European countries you were defending. In the Second World War New Zealand was firmly present in Europe too. Of the 3000 man Maori Battalion 2000 got wounded and 600 got killed. There are more than enough New Zealand graves in Europe to prove the interest New Zealand has in Europe. So Europe owes the Kiwi a lot, not just in Rugby terms. After this last war the founding fathers of the EU were determined that Europe should never go to war again. The foundation stones of the EU are about peace in Europe and the prosperity that goes with it. That's what Europe has done for us.

When in the fifties the project of the European Union began to take shape, New Zealand was favourable to it but was not too involved, because of its special relationship with the United Kingdom. In 1958 60 percent of total New Zealand exports went to Great Britain and only 14 percent to the first 6 Member States of the European Communities. When Britain was applying for Membership of the European Communities, it was clear that non-members did not have the right to export to the customs union on a non-tariff basis. Unlike other Commonwealth countries (I will not give any names) New Zealand was in favour of Britain's accession, because it saw the broader picture of peace and stability in Europe, even if your country would have to give up its special export privileges to Britain. Nonetheless, New Zealand alone managed to very successfully negotiate significant arrangements with respect to dairy and lamb exports to Britain during the accession negotiations.

Britain's entry in the European Communities actually changed New Zealand's relationship with Europe quite significantly. Although some New-Zealanders felt that Britain betrayed its most loyal ally, New Zealand got a lot in return. The level of engagement with the individual European countries got much stronger. New Zealand diversified its export, and France, Italy and Germany emerged as significant export markets, although Britain remains the biggest partner. Europe really is a single market for New Zealand now. The European Union is New Zealand's second largest economic partner after Australia, more than 18 percent of your exports go to us. It is also the largest market for some key New Zealand exports such as butter, lamb, apples, wine and of course your kiwi's. More than 50 percent in value terms of the diary procedure and two-thirds of lamb goes to Europe. The EU currently is responsible for about 20 percent of the foreign direct investment in New Zealand. Moreover, the political relations with the different European countries have never been better. I have to conclude that the relationship New-Zealand-Europe is quite close, and that you are still interested in us. One example is the deployment of New-Zealanders under the UN flag with NATO and the UN in Bosnia and Croatia. Another example is the signing of the Joint Political Declaration between New Zealand and the European Union in Parliament, in Strasbourg in May 1999, ensuring that the voice of New Zealand continues to be heard on issues important to you.

Let me turn now to the second part of my speech. I, as Chairman of the Committee on Budgets in the European Parliament, let me introduce you to the fascinating and juicy world of the EU budget procedure. The European Parliament has eleven official languages, but many say the esoteric language used in the budget-procedure is the 12th, as outsiders have difficulties understanding it. The European Parliament with the Council of Ministers, together being the budgetary authority, decides every year on the budget of the European Union upon a proposal from the European Commission, the executive. This year the budget accounted for 95 billion Euro which is about 208 billion New Zealand Dollars. 1 Euro is 2,2 New Zealand Dollars, as I know since I bought a sandwich this morning. As I said before, the determination of the EU budget has traditionally been one of the greatest powers for the Parliament. However, the revenue side remains within the domain of the Council, but we are lobbying for more influence in this respect, believe me, one learns to lobby in Brussels.

*** According to the Treaty, drawing up the EUs annual budget formally begins with the presentation of the preliminary draft budget by the Commission at the end of April or the beginning of May. It then goes for its first reading in Council and the draft budget is adopted by the Council in July, decided on the basis of the Commission’s preliminary draft budget. This forms the basis for the first reading of the Parliament. In September and October the Members of the Committee on Budgets discuss the political priorities that the specialised committees have expressed in their draft amendments to the Council’s draft budget. These draft amendments are drawn up by the committees in July and September. The Budgets Committee submits its opinion to the plenary for the first reading of the Parliament in October. Back to the Council for its second reading where the Council decides on a part of the budget comprising the main part of agricultural expenditure and international treaties. In December the European Parliament decides in second reading on most sectors of the budget including Internal Policies, External Actions and the Structural Policy. Following the final approval of the budget by the European Parliament's Plenary the procedure is concluded with the signature of the President of the European Parliament. Hopefully the budget then reflects Parliament's priorities. (Are you still awake?)

This was a brief outline of the formal framework of the budgetary procedure, but the reality is more complex and the relationships and influences between the Institutions are much greater than foreseen in the Treaties.***

In concluding an Interinstitutional Agreement, Parliament, the Council and the Commission agreed in advance on the details of the interinstitutional co-operation in the budgetary sector and established a framework for Community expenditure in the shape of a Financial Perspective. This Financial Perspective shows the maximum amount and the composition of future Community expenditure. Additionally, a Financial Framework was decided upon by the three institutions in 1999 for the period 2000-2006. This Financial Framework includes indicative figures for a European Union with 6 New Member States from Central and Eastern Europe and the Mediterranean Region, if they would be Members in 2002. *(Overhead 1)*

Let me just run through the existing budget of the EU *(Overheads with colours)*. The main categories of Community expenditure are divided into Headings, let me go on by explaining these. Heading one is Agriculture, which includes direct aid to European farmers and market measures, in short, price subsidies to farmers compensating for low market prices, as well as appropriations to support rural development. Agriculture forms the biggest part of the expenditure. The second heading represents Structural Operations, funds available for projects in the weaker European regions and therefore improving their economic and social structure. 80 % of the Community budget is spent on Agriculture and Structural Operations. The third category is Internal Policies, including research, transport, education, training, environment, industrial policy and much, much more. The fourth part is External Policies expenditure, covering development aid, external relations and co-operation with third countries. The fifth Heading is administration, paying for my office and the sandwich I told you about. But relatively that's not too much. In the Reserves, heading six, the EU puts monetary leftovers and funds for unforeseen actions. Under category seven the Pre-Accession Aid is put together, money available for preparing the Candidate Countries for their upcoming accession to the EU. And finally, in the Financial Framework, the figures in Heading 8 give an indication of the expected amount of funds needed for 6 New Member States if they would be members in 2002. The revenue side consists of own resources of the Union deriving from a share of the VAT and the GNP, customs duties and sugar levies.

In the four or five years that I have been a member of the EU-Australia and New Zealand delegation, I have tried to get the message across that not everyone in the EU supports the Common Agricultural Policy as it presently stands. Your membership of the Cairns Group is putting pressure on the EU to liberalize its agricultural sector, and I welcome that. Your approach to a free market for agriculture has plenty of support, and I speak as a Labour politician. There is pressure on the Common Agricultural Policy for reform from the WTO, from enlargement and from the strict budgetary pressures on Member States to keep their spending within the Maastricht criteria for the Single Currency. How much will it cost without reform and also with reform? The present Mad Cow and Foot and Mouth crises have just added 1,65 billion € to the agricultural expenditure. We pay farmers to breed cattle and then we pay farmers to destroy their cattle. This is a crazy situation that is not sustainable.

How much will the Member States be prepared to give up their share of the Structural Funds? I call this the Wigan v Warsaw scenario. In other words will the good Burghers of Wigan willingly give up their millions so that people in Warsaw can benefit. Figures put forward by a famous study claim that Britain's GDP will grow with an extra 0,2 % point because of EU enlargement. *(Overhead 2)* These longer-term effects will be because of increased competition, better access to these new markets etcetera. However, I have at present a case of a multinational company that supplies the European market from an UK factory that wants to relocate in the Czech Republic. The Czechs will be a member of the Union soon, and then will have no restrictions to the EU Internal Market. Do we then say to those who are about to loose their jobs that money to help them retrain or start new businesses will also be stopped and given to the Countries in Central and Eastern Europe? I'm waiting for someone to say **YES**. So what will the EU do for them, the countries of Central and Eastern Europe?

This brings me to the third part of my speech. The EU is negotiating now with 12 Candidate Countries and in the near future they will be Member of the EU: The Czech Republic as I told you, Estonia, Malta, Cyprus, Slovakia, Slovenia, Poland, Hungary, Latvia, Lithuania, Bulgaria and Romania. Turkey has a Candidate Country status, but is not negotiating yet. The Countries in Central and Eastern Europe are eager to join not just for economic benefits but to safeguard their newfound democracies. They see Spain, Portugal and Greece that not that long ago were military dictatorships thriving in the democratic environment of the EU and they want the same.

Whilst great political statements are made by heads of Governments and Foreign Secretaries, no-one seems to have answered the question “What price enlargement?” I am convinced that the determining factor to ensure the success or otherwise of enlargement depends on how much the existing member states are prepared to pay to see it happen. In other words, what impact has enlargement on the EU budget?

We have to base predictions and scenarios regarding the costs of enlargement on a number of assumptions, which unavoidably imply political considerations, in particular in what order the candidate countries will accede and in which years. Substantial negotiations have not been started yet, neither on the budgetary aspects of the individual accessions, nor on the financial side of those politics which have the highest financial impact: Common Agricultural Policy and Structural Policies. Important aspects will become clear only at the end of the negotiations. The number of open questions is illustrated by the fact that the Commission had registered at the end of 2000 over 340 requests from Candidate Countries for transitional measures, these are temporary derogations from EU obligations in agriculture and over 170 requests in other fields.

Although personally I have my doubts, today, the most common scenario is to assume the first accessions in 2004, which means that the negotiations will be concluded and the Accession Treaties signed before June 2002, giving the European Parliament, the Member States and the

Candidate Countries sufficient time to ratify the Accession Treaties in 2003, enabling the first accession on the first of January 2004. This perspective has been welcomed by Parliament, in particular in view of the 2004 elections to the European Parliament.

Let me turn to Heading 1, which is Agriculture. With respect to the participation of the New Member States in the Common Agriculture Policy, the costs for the EU-budget will mainly depend on the inclusion of the Candidate Countries farmers in the direct aid transfers.

The predictions on *Overhead 3* are based on several assumptions. Scenario 1 and 3 assume the accession of the Czech Republic, Hungary, Poland, Cyprus, Slovenia and Estonia (Group 1) and of Lithuania, Latvia, Slovakia and Malta (Group 2) in 2004 and Bulgaria and Romania (Group 3) in 2008. Scenario 2 and 4 assume the accession of Group 1 in 2004, Group 2 in 2008 and Group 3 in 2012. In the table, scenarios 1 and 2 assume no direct aid transfers to the farmers of the New Member States, unlike scenarios 3 and 4.

The figures are being compared with the current Financial Framework, which assumed the accession of 6 countries in 2002. Apparently, without direct aid to farmers enlargement is affordable even if 10 instead of 6 countries join. If the outcome of the negotiations lead to the decision to grant direct aid to the farmers of the Candidate Countries, and depending on the outcome of the upcoming EU Agriculture reforms, the Financial Framework clearly has to be adapted to the new situation, which means extra money needs to be found.

Would it be a feasible option to create a different standard for Eastern and Western farmers? I think that the sudden transfer of the maximum amount of subsidies available in the framework of the Common Agricultural Policy to one distinct group in the societies of the Candidate Countries could have serious repercussions in terms of sudden income differences between farmers and other sectors, which could lead to problems.

In this context the outcome of any agricultural reforms are extremely important. They could lead to a totally different picture, with a move away from production subsidies to direct payments, for example for environmental management or funds for organic farming, or simply moves away from intensive farming methods. Whether this would result in any budgetary savings is a political decision yet to be made. In this respect it is interesting to mention, especially for exporters from New Zealand, that the EU has to take over the WTO obligations from the New Member States, for example in agriculture, and these countries in general have a lower protection than the EU. So these levels have to be negotiated again in the next WTO-round.

With respect to Structural Operations in Heading 2, the extra costs for the EU are going to be substantial. The predictions on *Overhead 4* are based on a Council regulation allowing the maximum annual Structural Policies transfer from the EU-budget to a single country to be 4 % of its GDP. Scenario 1 and 3 again represent the rapid accession of a lot of countries, scenario 2 and 4 assume the slow accession.

Scenarios 1 and 2 are reflecting the assumption of an immediate transfer of 4 % of the New Member States GDP from the EU-budget. Are these scenarios realistic if one takes into account the absorption and co-financing capacity of the countries? Scenarios 3 and 4 show the results, if the “phasing in” method for Structural Funds is used, with the transfers increasing annually with 0.5 %, starting with 1.5 % in the first year of an accession. The table shows clearly that the expenditure is better in control in the first years of enlargement and this could be a strong advocate for the “phasing in” method. In addition to this argument, the fact that the Candidate Countries themselves have indicated not to be able to administer and co-finance 4 % of their GDP in the first years gives ground for the argument that the absorption capacity is not sufficient in the first years. Anyhow, it will take the new member states some years to put these funds to really effective use, and, like Agriculture, it is not a good idea to dislocate the economies and societies of the New Member States with an immediate 4 % of GDP transfer.

Is enlargement affordable with respect to Structural Funds? Apparently, if the slow phasing in method is used, enlargement is affordable on the basis of the present Financial Framework even if 10 countries join in 2004. Assuming an immediate EU-budget transfer of 4 % of the New Member States’ GDP the transfers in the first few years will be much higher than accounted for in the Financial Framework.

We are now turning to Internal Policies put forward in Heading 3. The Candidate Countries are already participating in a significant number of Community programmes and instruments in this area. After enlargement, the expenditure for internal policies needs to be increased in relation to the needs of the new Member States. However, the figures resulting from the European Parliament’s estimations are well below the figures entered in the financial framework EU-21 for Internal Policies. So we do not have to worry here.

The accession of the Central and Eastern European countries and of Cyprus and Turkey brings new political tasks for the Union in the field of external actions, which is Heading 4. The European Union will have new common borders with the Ukraine, Belarus, Croatia, Serbia and Moldova. The geographical and political situation of Cyprus needs special attention. This will result in the need for additional funding in External Actions.

Parliament has underlined the increasing pressure on the ceiling for heading 5, administrative expenditure. The budgetary consequences resulting from enlargement, for example the buildings required and the increased number of staff, the translation and interpretation services, are substantial. Relatively to the other Institutions, in particular for Parliament does enlargement lead to a substantial impact on the internal organisation, as the number of countries is going to increase by 80 %, the number of Members of Parliament by 17 %, leading to a maximum of 732 Members, although Parliament tried to restrict the number of Members to 700 in total, and the number of languages is almost going to double, 10 new languages. If just one country and language accedes it takes already 159 new posts in Parliament.

In conclusion, with respect to the costs of enlargement, political choices have to be made. Even though the European Commission thinks accession only depends on the extent a Candidate Country has transposed all the European Union laws and achievements and applied them, the success of enlargement also relies on what the current members are willing to offer on the supply-side. What we are looking at here is a modern version of the post-WWII Marshall plan, it success depends on how much money is put in and how it is managed. If one relies on what I said before one could conclude that enlargement is affordable at least in the first years until 2006. However, after that year the expenditures are going to rise quite substantially, which almost certainly leads to the Wigan versus Warsaw dilemma, more money for Eastern Europe less money for the old EU-15. For example, it needs the current Member States to agree to sacrifice part of their Structural Funds. The concrete financial implications of enlargement have to be studied more in depth. Though a subject in itself, what is the effect of enlargement on the Euro? Are the present ceilings and amounts really sufficient for enlargement? The European Parliament shall have the guts to present the actual facts and figures out into the open. Maybe you here in Christchurch can shed a fresh and objective light on this issue?

At the end of the process people could ask: “What´s Europe done for us?” An answer would be that Europe is united on a bigger scale than ever before, geographically and in socio-economic and political terms, even more than in Roman times, during Charlemagne or Napoleon. The difference is that this time it happened voluntarily, with Europeans living in peace and prosperity, with effects and opportunities for Nations such as New Zealand.