Policy Paper

The Potential Impact of Ukrainian Accession on the EU's Budget – and the Importance of Control Valves

| Michael Emerson |

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About the Author

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Michael Emerson is an associate senior research fellow at the Centre for European Policy Studies (CEPS). Mr Emerson began his career at the OECD, Paris, from 1966 to 1973. Upon accession of the UK to the EU in 1973, he joined the European Commission in the Directorate-General for Economic and Financial Affairs, where he had successive responsibilities for macroeconomic analysis and forecasting the economics of forming the internal market and later the monetary union. His last position at the Commission was as its first Ambassador to the USSR and then Russia from 1991 to 1995. From 1996 to 1998, he was a senior research fellow at the London School of Economics. Mr Emerson joined CEPS as an associate senior research fellow in 1998 and has worked on a succession of projects, mainly in the European neighbourhood. These initially concerned the conflict zones of the European neighbourhood, including the Balkans, Cyprus, the Middle East, and the Caucasus. More recently, he has focused his work on the East European neighbourhood, with projects on Ukraine, Moldova, and Georgia.

Executive Summary

If hypothetically Ukraine was already today a full member state of the EU, it could be benefitting from around €18-19 billion of receipts from the EU budget, net of contributions – i.e., roughly within the range of Poland and Romania scaled to fit Ukraine. This would mean an increase in GNI-based contributions by all member states of around 10%.

However, this is only a simple 'static' reference number for a more complex and realistic assessment with many 'dynamic' factors that could reduce this amount by the time Ukraine might actually accede in the course of the next decade. These can include catching up in the relative prosperity of Poland and Romania, possibly making budgetary room for poorer new member states, and control valves with capping mechanisms for budget spending on cohesion and agriculture. Both capping mechanisms would need reform, but there is room for negotiation of mutually acceptable outcomes.

It is sometimes rumoured that the Ukraine bill would turn all of today's net beneficiaries into net payers to the EU budget. Our calculations show that this speculation, or maybe disinformation, is absolutely unfounded.

The EU's proposed new €50 billion Ukraine Facility for 2024 to 2027, averaging €12.5 billion per year in grants and loans, is already not so far behind the static estimate for full membership.
There are further huge uncertainties affecting the outcome:

- How the war may end, with damages to be repaired, €383 billion so far.
- How far donors and investors other than the EU will contribute to reconstruction.
- "Making Russia pay," given most of its frozen €300 billion assets are held in the EU.
- Debates on reform of the EU's budget, including under the 'future of Europe' agenda.

Overall, the budgetary aspect of Ukraine's possible accession looks relatively manageable, compared to other more intractable political, economic, demographic, and security issues.

Three recommendations are presented at the end, including on the need for the European Commission to inform public debate along the lines of the present paper to avoid speculation over exaggerated concerns.

Introduction

The question of how Ukraine's possible membership in the EU might impact the EU budget is now a matter of high political importance, given that the EU is due to decide before the end of 2023 whether to open accession negotiations and the wild hearsay now circulating in EU milieux. For example, there is the view (for which, however, one can find no serious source) that this would push all the newly acceding (since 2004) member states into net payer positions – whereas today, they are all big net beneficiaries.

The President of the European Commission, Ursula Von Der Leyen, in her State of the Union speech on 13 September 2023, addressed this issue explicitly, saying: "We need to discuss the future of our budget – in terms of **what** it finances, **how** it finances it, and how it is **financed"** – to which this paper makes a contribution.[1]

The purpose of this policy paper, therefore, is to provide a reference setting out what can reasonably be said on Ukraine's possible impact on the EU budget, while it is evident that there are too many unknowns to permit definitive answers. However, the dimensions of Ukraine's impact on the EU budget would certainly be important enough to raise budget policy issues, which the paper also delves into.

Attempts to answer the question can be conceived at two broad levels. A first clearly defined – but narrow and formalistic – approach can be to simulate what the budget impact would hypothetically be if Ukraine were a regular member state today without an ongoing war. Methodologically, this can be straightforward and gives useful but only partial information.

A second approach is to try to account for the exceptional circumstances of the ongoing war, whose outcome is still uncertain, while its costs are already huge and still mounting. While the EU has taken the lead in making multi-year financial commitments, other possible contributions are big unknowns (including those from other G7 states, international financial institutions, private investors, and maybe some drawing on Russia's frozen assets). The time horizon is an important variable, considering existing transitional arrangements (notably for agricultural payments). There are ideas pertaining to how the accession process might be reformed to be phased gradually in stages.

Both approaches are followed here, with the second one involving speculative questions. This policy paper sets out 'static' estimates that are based on the cases of Poland and Romania as comparator states and scaled for Ukraine, supposing it were a member state today.[2] It follows with an account of recent budget policy reforms in the EU and explains how the cohesion and agricultural policies include capping provisions that would need to be revised with Ukraine's accession. The paper analyses the big questions regarding how far other donor states and international financial institutions will complement the efforts of the EU. Beyond the scope of the initial static estimates is the time horizon for the full budgetary impacts to take effect and likely lead through into the 2040s, by which time many things may change. Dwelling upon the author's findings and calculations, this paper concludes with policy recommendations.

1 Ursula Von Der Leyen, "2023 State of the Union Address by President von der Leyen," European Commission, 13 September 2023.

2 For the arithmetic of these estimates, see Annex Table 3.

Table 1. Basic parameters of the EU, Ukraine, Poland, Romania, and France.

	EU	Ukraine	Poland	Romania	France
Population, millions	447.7	43.8 (2019) 31.0 (2023)[3]	37.7	19.1	67.7
Land area, mn hectares	423.3	60.4 (2017) 52.1 (2023)[4]	32.3	23.8	55.2
Arable land, mn hectares	157.4	32.5 (2017) 27.9 (2023)	10.9	8.9	32.8
GNI, € billions, 2022	15 807	143	656	285	2 642
GNI € per capita, 2022	35 283	4 052	18 350	15 660	48 860
GNI per capita, % EU average	100	11.5%	52.0%	44.3%	138.4%
GDP in PPS per capita, % EU av.[5]	100	26.3%	77.9	74.5	104.3

Source: Statistic Service of Ukraine, the European Commission, EU spending and revenue (2000-22), World Bank Atlas.

1. Basic Parameters

Leaving Russia aside, Ukraine, in its pre-2014 borders, was Europe's biggest country in land area – a little more than France but a little less for the area controlled by Kyiv as of September 2023 (see Table 1). The arable land before the Russian aggression was virtually the same as that of France; the area currently controlled by the government is significantly smaller, down from 32.5 million hectares to roughly 26.5 million hectares. This is a key statistic for estimating Ukraine's budgetary receipts under the EU's agricultural policy. Politically, Ukraine's objective is to regain all the occupied territories, while its military counter-offensive has made only slow and small territorial gains so far. Table 1, therefore, shows the mini-max range of possible outcomes for land areas (i.e., the territory of Ukraine before hostilities began in 2014 and that currently controlled by Kyiv). Set out in Table 1 are key parameters that have heavy weights in determining the EU budget outcomes: population, land area, and gross national income (GNI), with data given for Ukraine, the EU, and the three most relevant member states (Poland, Romania, and France).

The most important variable overall for estimating Ukraine's possible budgetary receipts is its population size, which is also subject to big uncertainties because of the war and resulting emigration. While Ukraine – before the current war – had a population of around 44 million, the loss of territory and emigration are estimated to have reduced this to around 31 million.

Poland and Romania present a catch-up model from which Ukraine should derive encouragement

For the Cohesion funds, the best comparators are Poland and Romania as Ukraine's largest EU neighbours. Ukraine's income level (GNI) – which at the end of the Soviet period was about the same as that of Poland – has fallen a long way behind. In recent years, both Poland and Romania have achieved macroeconomic growth rates significantly higher than the EU average, thus presenting a catch-up model from which Ukraine should derive encouragement.

While at current market prices, Ukraine's gross national income per capita is much lower than that of any existing member state at 11.5% of the EU average. The divergences are considerably attenuated when GNI is measured

[3] The Institute for Demography and Social Research estimated that at the beginning of 2023, the population of government-controlled territory could range between 28 to 34 million, see: Oleg Danylov, "As of January 1, 2023, the population of Ukraine was 28-34 million," *Mezha*, 7 April 2023; The biggest source of uncertainty is over the 7 million Ukrainians have fled the country because of the war. Some studies are now suggesting that around half will return. On this basis, a central figure of 31 million may stand as a provisional estimate.

[4] The percentages of the land areas wholly or partly occupied by Russia in September 2023 are roughly estimated for Donetsk to be 50%, Luhansk 100%, Zaporizhzhia 70%, Kherson 70%, and Crimea 100%. These amounts are deducted from the pre-2014 total and arable land areas to give the estimated 2023 figures, based on the State Statistics Service of Ukraine and the author's own estimates.

[5] GDP in PPS means that original GDP numbers are converted onto a standard of common price levels, to avoid that comparisons be distorted by different price levels.

on the basis of purchasing power standards (PPS), with Ukraine at 26.3% of the EU average. PPS data are used in allocating Cohesion funds.

The EU's current budget is framed by the Multiannual Financial Framework (MFF) 2021-27. For all seven years, the figure amounts to a total of €1,212 billion in commitments. For the current year 2023, total commitments amount to €182 billion, with €168 billions for payments (see Annex Table 1).[6] The budget includes provisions guaranteeing loans extended to third countries by the Commission and European Investment Bank (€62 billion in 2022).

It is worth emphasising that these basic parameters and policy variables can – and probably will – change significantly over any realistic time horizon for Ukraine's accession, which could lead on to the year 2040 (given the ten-year post-accession transition that is likely to apply to agricultural payments). At a broader macroeconomic level, the two largest 'new' member states – Poland and Romania – have over the last decade both seen economic growth way above the EU average (at around 3.5% per annum vs 2.0% for the EU average) and now reach around 75% of the EU average for GDP per capita on a PPS basis. This is pointing to a welcome reduction of income disparities between member states, which – if sustained – will affect the thinking about the evolution of Cohesion policies. This may change key parameters for the next MFF 2028-34 and again for MFF 2035-41. For example, Cohesion funding for newly prosperous member states may be gradually reduced, making room for funding much poorer newly acceding states – including the Western Balkans, as well as Ukraine and Moldova – either without increasing the overall Cohesion budget or increasing it not as much.

2. EU Budget Funding for Ukraine

The EU, its member states, and European financial institutions have together provided wide-ranging support to Ukraine and its people, which amounted to €70 billion up to May 2023.[7] This included €38 billion in financial, budget support, and humanitarian assistance; €15 billion in military support; and €17 billion made available by the EU and its member states to help cater for the needs of people fleeing the war.

As from 2024, the centrepiece of such support will be the newly proposed instrument – the Ukraine Facility, with a €50 billion commitment for the next four years (2024-27), which comprises €17 billion in grants and €33 billion in loans.[8] The European Commission published a complete draft Regulation in February 2023, which is now tabled before the Council and the Parliament. The final adoption of the new law is expected by the end of 2023. At the time of writing, no negative positions have been heard from member states, although substantial negotiations over any necessary revision of the current MFF are, nonetheless, anticipated.

Table 2. Ukraine Facility, indicative financing (€ millions)

	Annual 2024-27	Total
Grants	4 250	17 000
Pillar 1 Grants to Ukraine State	1 500	6 000
Pillar 2 Ukraine Investment Framework	2 000	8 000
Pillar 3 Technical assistance, interest rate subsidies	625	2 500
Loans - Pillar 1 only	8 250	33 000
Total	**12 500**	**50 000**

Source: European Commission.[9]

6 Council of the European Union, *Multiannual Financial Framework 2021-2027 and Next Generation (Commitments, in 2018 prices)* (Brussels: General Secretariat of the Council, 2021).

7 "A New Ukraine Facility – Questions and Answers," European Commission, 20 June 2023.

8 European Commission, *Proposal for a Regulation establishing the Ukraine Facility*, COM(2023)338 (Brussels: European Commission, 20 June 2023).

9 The distribution of the total between grants and loans may change and is subject to annual decision-making.

The Facility will be organised around the following three pillars:

- **Pillar I – Grants and loans to the State**. The Government of Ukraine will prepare a "Ukraine Plan" that outlines its vision for the recovery, reconstruction, and modernisation of the country, as well as the reforms intended as part of its EU accession process (public administration, good governance, the rule of law, etc.). Payments will follow a quarterly schedule, following verification of the relevant conditions by the Commission.

- **Pillar II – Ukraine Investment Framework** to mobilise public and private investments in Ukraine's recovery and reconstruction by providing guarantees and blended finance (a mix of loans and EU grants) in support of the Ukraine Plan.

- **Pillar III – Technical assistance**, including expertise on reforms, support to municipalities, civil society, and other forms of support under the Instrument for Pre-Accession (IPA) for pre-accession countries. Interest rate subsidies for the loans will also be included.

With this Facility to end in 2027, at the same time as the current MFF, it may be expected that the subsequent financial commitments to Ukraine will be integrated into the next MFF 2028-34, conditional on the satisfactory implementation of the first Ukraine Facility, as well as political and economic conditions in Ukraine at that time.

In July 2023, High Representative / Vice President Josep Borrell proposed a companion €20 billion four-year commitment of grants for military supplies.[10] At the time of writing, no formal proposal has been published.

The annual average expenditures under the proposed Ukraine Facility 2024-27 are expected to be €12.5 billion (€50 billion in 4 years), excluding the proposed grants for military supplies. This amount can be used as a marker alongside what comparator member states receive.

[10] Alexandra Brzozowski, "EU member states to explore €20 billion war fund option for Ukraine," *Euractiv*, 19 July 2023.

3. Comparator States

This section makes static estimates of how Ukraine might impact the EU budget in the deliberately formal hypothesis that it is already a full member state. Caution over interpreting these amounts has already been signalled above, having in mind how the basic economic and policy parameters might change over the many years before full membership might be obtained.

The most relevant comparator member states of the EU are Ukraine's two largest neighbours – Poland and Romania – given their population sizes and levels of development in relation to the EU average, with France as a closer comparator for agricultural spending.

EU budget data for 2022 is used, for which full details are available from the Commission on the receipts and contributions for all member states individually.[11] In addition, a similar exercise has been undertaken for the Western Balkan states.

3.1. Poland, Romania, and France

In using data from the comparator states, the method is to apply the key variables that determine budgetary allocations and scale the 2022 budget results for these states to fit Ukraine. Table 3, therefore, first sets out the basic 2022 budget data for its main headings – i.e., agriculture and cohesion, as well as other expenditures and contributions.

To estimate hypothetical amounts for Ukraine, the next step is to introduce scaling factors in relation to the budget amounts for the comparator states (see Table 4). This has to be tailored to the specifics of each of the main headings.

[11] "EU spending and revenue," European Commission, last accessed in September 2023.

Table 3. EU Budget 2022, France, Poland, and Romania (€ billions)

2021	FR actual	PL actual	RO actual
Receipts			
Agriculture	9.3	4.7	2.8
Cohesion	2.3	12.3	4.9
Other	5.2	1.2	0.4
Total receipts	16.9	18.3	8.1
Contributions	-26.4	-7.1	-2.6
Net receipts	-9.5	11.1	5.5

Source: European Commission, EU spending and revenue (2000-22).

For agricultural receipts, the key variables are agricultural land area times the amount of direct payments per hectare. For Ukraine, the budget receipts of Poland and Romania are scaled according to their land areas relative to Ukraine. The exact results would depend on the complex details of the payment system, but to do this would go beyond the scope of the present research task. The estimate for Ukraine of €10.4 billion (see Table 4) is based on a simple arithmetic average of Poland and Romania, scaled for Ukraine's agricultural land area (see Annex Table 3).

However, a check on this calculation can be to apply the current minimum direct payment of €215 per hectare to Ukraine's agricultural land area of 36.4 million hectares, which gives €7.8 billion. This is close to the other estimates here presented, taking into account that the data in Table 3 also includes rural development funding as well as direct payments. It is both interesting and reassuring to note that this amount is close to the actual receipts of €9.3 billion (see Table 3) of France – the EU member state with an agricultural land area closest to Ukraine – as different calculations arrive at roughly comparable amounts.[12] For cohesion receipts, the key scaling factor is population size. The result for Ukraine is €9.0 billions. Other spending categories include the single market, border management, security and defence, external aid, and administration, for which population size is again the scaling factor.

It is both interesting and reassuring that different calculations arrive at roughly comparable amounts

For contributions to the EU budget, the predominant own resources are either GNI per capita or the closely related GDP per capita, with GNI as the marginal source. The estimate for Ukraine is, therefore, based on GNI. Given the extremely low GNI per capita of Ukraine of €4 622, which is roughly one-quarter of the average of Poland and Romania (see Table 1), the resulting estimate is very low, which contributes significantly to the high positive net balance of €18.9 billion.

This estimate of €18.9 billion averages €21.7 billion and €16.0 billion based on the current Polish and Romanian cases. It would amount to an increase of 10.5% in the current 2023 EU budget appropriations for commitments (which totalled €179.8 billion, excluding the NGEU).[13]

Table 4. Ukraine hypothetically in the EU budget for 2022, scaled in relation to Poland and Romania (€ billions)

	UA based on Poland	UA based on Romania	UA based on a simple average of PL + RO
Agriculture	11.9	8.8	10.4
Cohesion	10.2	7.8	9.0
Other receipts	1.0	0.6	0.8
Total receipts	23.3	17.3	20.3
Contributions	-1.5	-1.3	-1.4
Net balance	21.7	16.0	18.9

Source: Author's own calculations, based on Table 3 above.

Faced with this sizeable budget increase, the EU might decide to make compensatory reductions in its current expenditure policies, in whole or in part, for which the eventual decision of the Council cannot be forecast. In practice, such decisions would be affected by the timescale over which Ukraine would be integrated.

[12] See Annex Table 3

[13] For Estonia, whose contributions to the 2022 budget amounted to €373 million, this would mean an increase of around €41 million (see Annex Table 4).

3.2. Western Balkans

A recent study has simulated the volume of EU budget grants that the six Western Balkan states would receive if today's EU policies were applied to each of them as full member states.[14] The overall result was that the six Western Balkan states, together with a population of 17.6 million would receive annually, net of contributions, €3.6 billion. For Ukraine, with a current population of 31 million, this would be scaled up to €6.3 billion.

By comparison, the proposed Ukraine Facility, with annual average expenditures of €12.5 billion, would already exceed this estimate for the Western Balkans. The small or very small population sizes of the Western Balkan states may limit the relevance of this comparison.

3.3. Impact on Net Balances of EU Member States

Here, it is assumed that the net budget impact is the €18.9 billion amount cited. In Annex Table 4, the calculations of what this would mean for each EU member state are worked through, assuming that the resulting increase in budget contributions is based on GNI per capita since GNI is the marginal source of own resources.

These results are summarised in Table 5 below. Unsurprisingly, Germany now is and will remain the largest net contributor, followed by France, whereas Poland is and will be the largest net recipient, followed by Romania.

Table 5. Net budget balances of EU member states, before and hypothetically after accession of Ukraine (€ billions)

	Net balance, 2022[15]	Contribution to UA €18.9bn	Net balance with UA
BE	+3.445	-.655	+2.790
BG	+1.489	-.094	+1.395
CZ	+2.648	-.329	+2.139
DK	-1.036	-.449	-1.485
DE	-21.545	-4.623	-26.168
EE	+880	-.041	+839
IE	-1.156	-.599	-1.755
EL	+3.166	-.247	+3.125
ES	+494	-1.586	-1.092
FR	-9.584	-3.156	-12.740
HR	+1.450	-.079	+1.371
IT	-4.918	-2.287	-7.205
CY	+239	-.032	+207
LV	+994	-.045	+949
LT	+1.583	-.079	+1.504
LU	+2.304	-.092	+2.212
HU	+4.220	-.189	+4031
MT	+109	-.019	+92
NL	-6.291	-1.130	-7.421
AT	-1.314	-.533	-1.847
PL	+11.141	-.784	+10.357
PT	+2.811	-.285	+2.526
RO	+5.496	-.340	+5,156
SI	+229	-.069	+160
SK	+2.148	-.128	+2.020
FI	-759	-.317	-1 076
SE	-2.306	-.665	-2.971
EU27		**-18.852**	
UA			**+18.852**

Source: Author's own calculations based on European Commission, EU spending and revenue (2000-22).[16]

In the middle, there is Spain, which is the only case of a member state that switches the category from a positive to a negative net balance position. Italy is a notable case of a country having become a significant net contributor, while at the same time having become the largest recipient of the Recovery and Resilience Facility (RFF). All the newly acceding member states, from 2004 on, would remain substantial net beneficiaries – contrary to various vague rumours sometimes heard.

Germany will remain the largest net contributor, followed by France, whereas Poland will be the largest net recipient, followed by Romania

[14] Vasja Rant, Mojmir Mrak, and Matej Marinc, "The Western Balkans and the EU budget: the effects of enlargement, Southeast European and Black Sea Studies," *Southeast European and Black Sea Studies* Vol 20, Issue 3 (April 2020): 431-53.

[15] Excluding NGEU.

[16] See Annex Table 4 for details.

Five of the richest member states – Austria, Denmark, Germany, the Netherlands, and Sweden – have negotiated continuing "rebates," thus reducing their contributions, which are taken into account in the basic data (see Annex Table 4). Whether or how this rebate system will be continued in future MFFs is unknown.

4. Budget Reforms and Control Valves

4.1. Budget Reforms

The EU's budget was, for many years, subject to three fundamental limitations: a ceiling of 1.0 of GNI, a balanced budget rule, and the exclusion of new own revenue sources. In the course of the last decade, all three have been overcome or made more limited.

The budget ceiling has been adapted several times to make room for exceptional macroeconomic and political needs. It was increased to 1.23 of GNI for the payments under the MFF 2014-20, and further to 1.40% of GNI for 2021-27 (and to 1.46% GNI for commitments). The larger amount for commitments represents a safety margin to cover possible needs for new circumstances, including possible negative economic developments. The ceiling was again increased – very substantially by 0.6% GNI – to a total of 2.0% of GNI to cover expenditures by the post-Covid RRF. However, this increase is intended to be only temporary and should revert to 1.40% GNI when the RRF is completed. In the 2022 budget, payments of €170 billion, excluding the RRF, represented 1.3% of GNI.

The dimensions of the EU budget are indeed currently being greatly increased by the exceptional NextGenerationEU (NGEU) programme, with the centrepiece being the post-Covid RRF. It foresees €723 billion in expenditures: €338 billion in budgetary grants and €385 billion in loans.[17] The RRF entered into force in February 2021; expenditures should proceed until December 2026, to be funded initially by borrowing on financial markets. The EU's borrowing that funds the grants will be repaid by the EU out of the planned new own resources.

The RRF marks a profound reform of the EU budget, in ways that go far beyond the already important raising of the budget ceiling. Formerly, the EU budget was constrained to be strictly balanced between expenditures and revenues. Deficit funding with borrowing – as is normal in national budgets – was excluded.

Table 6. Recovery and Resilience Facility (RRF), receipts for Poland and Romania (€ billions)

	PL 2021-2026	PL annual average	RO 2021-2026	RO annual average
Grants	23.9	3.4	14.2	2.0
Loans	11.5	1.6	14.9	2.1
Total	35.4	5.1	29.0	4.1

Source: European Commission (averages over 7 years).

The new own resources are envisaged under the following headings:

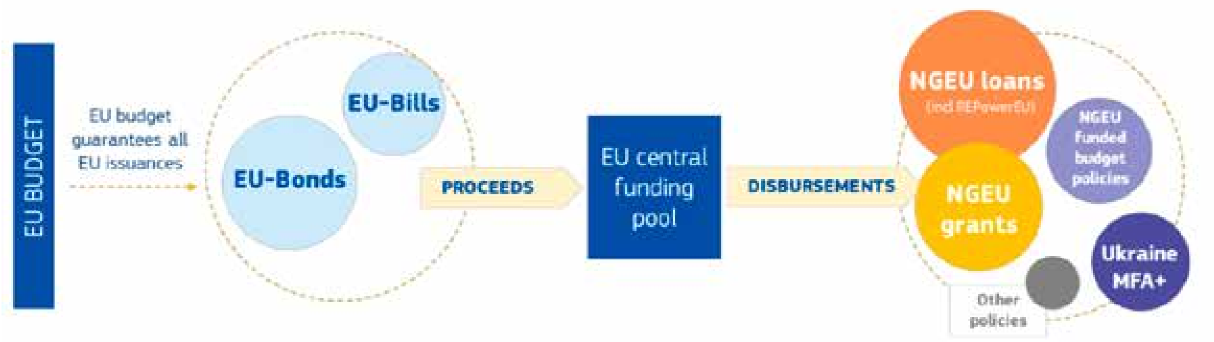
- tax based on non-recycled plastic packaging waste;
- Carbon Border Adjustment Mechanism (i.e., carbon border tax);
- EU-wide digital tax;
- Emissions Trading System, with its extension to buildings and all transport modes;
- Financial Transaction Tax.

So far, only the tax on plastic packaging has been agreed upon (in 2021), while the others remain at different stages of debate or negotiation and are subject, in most cases, to serious controversies.

While the RRF is officially intended to be a one-off project, it is also apparent that the Commission is building up its methods of borrowing with a view to establishing a permanent and macroeconomically significant presence in financial markets. As Figure 1 shows, the Commission will be borrowing through its branded EU-Bonds with maturities ranging between twenty years, as well as EU-Bills for shorter maturities. EU-Bonds have a complete range of maturities, structured across 3, 5, 7, 10, 20, and 30 years. EU-bills have a maturity of under one year and are marketed by regular auctions.

17 "NextGenerationEU," European Commission, last accessed in September 2023.

Figure 1. The EU's new budgetary and borrowing system



Source: European Commission, Half-yearly report on the implementation of borrowing, debt management, and related lending operations.[18]

The new Ukraine Facility is fitted into this developing financial framework.

The RRF is officially to last until 2026, and then to cease to exist, with the budget ceiling to return to 1.4% of GNI. Beyond the speeches of official governmental spokespersons, the plausibility of this policy line is contested or considered sceptically. The RRF itself may well end, but the political and economic demands for an enhanced fiscal capacity for the EU will continue. Notably, Mario Draghi, former President of the European Central Bank and Prime Minister of Italy, argues that the sustainability of the European Union and the eurozone requires a permanent build-up of the EU's central fiscal capacity, of which the RRF has provided an example related to just one episode of economic shock – i.e., the Covid pandemic.[19] Others will follow, as the war in Ukraine has already testified. Mario Draghi contends that the major economic shocks hitting Europe nowadays arecommon to all, compared with the past when such shocks tended to be more asymmetric (i.e., more narrowly concentrated on individual member states). This enhances the case for an EU-level shock-absorbing capacity. As the €750 billion RRF has shown, when the EU is hit by a common macroeconomic shock, the financial magnitude of the policy response has to be large, which puts the dimensions of assistance to just one country – such as Ukraine – into a less formidable perspective.

The RRF itself may well end, but the political and economic demands for an enhanced fiscal capacity for the EU will continue

4.2. Applications to Ukraine and Control Valves

4.2.1. Cohesion Policy

"Cohesion policy" is the term that is now (confusingly) being used to cover all the "Structural" funds: namely the Regional Development Fund, the Social Fund, the Territorial Mechanism, and the Cohesion Fund. The European Court of Auditors has devoted a substantial report to explaining the complex set of criteria and sub-divisions of the structural funds.[20]

For the largest category of funding, the Regional Development Fund, there is a specific category of "Less-developed regions" that applies to the regions whose GDP per capita is under 75% of the EU average and that would apply to Ukraine. The main criterion determining funding is relative prosperity multiplied by population. Yet regions can also benefit from additional premiums relating

[18] European Commission, Report From The Commission To The European Parliament And The Council Half-yearly report on the implementation of borrowing, debt management and related lending operations pursuant to Article 12 of Commission Implementing Decision C(2022)9700 (Brussels: European Commission, 22 February 2023).

[19] Mario Draghi, "15th Annual Martin Feldstein Lecture Presented by Mario Draghi, former President, European Central Bank and former Prime Minister, Italy," National Bureau of Economic Research, 11 July 2023.

[20] European Court of Auditors, *Rapid case review, Allocation of Cohesion policy funding to Member States for 2021-2027* (Luxembourg: European Court of Auditors, March 2019).

to socio-economic and environmental factors: unemployment (particularly youth unemployment), educational attainment, greenhouse gas emissions, and migration. The latter two factors are proposed for the first time in the current MFF. The relative prosperity criterion comprises a coefficient in the calculation consisting of the EU GDP per capita average less than that of the less developed region.

Under the Territorial Mechanism, funding is allocated to regions primarily on the basis of the populations affected – i.e., namely the regions at the EU's external borders – which would be highly relevant for Ukraine.

Cohesion Fund spending is available to member states whose wealth is less than 90 % of the EU average, allocated on the basis of populations and areas, adjusted for relative prosperity, for which Ukraine would, present policies, again be eligible.

There is also a capping provision limiting total Cohesion spending, which includes the following:[21]

> For member states whose average GNI per capita (in PPS) for the period 2015-2017 is under 55% of the EU average per capita, 2.3% of their GDP.

Ukraine would also come under this cap of 2.3% GNI, with a dramatically lower GNI per capita (at PPS) of only 26.1% of the EU average. With Ukraine's current GNI of €143 billion, this would amount to €3.3 billion. Manifestly, the 2.3% cap would be implausible for Ukraine and would thus have to be renegotiated, given the scale of commitments the Commission has already proposed for the Ukraine Facility, with annual amounts of €12.5 billion that represent 8.7% of today's GNI.

The RRF – while intended to be temporary and not applicable to Ukraine – has a similar but simpler methodology and may represent forward methodological thinking in the EU. Allocation is based on population and GDP per capita. The results are capped to avoid extreme concentration of receipts by the lowest income states at 150% of the inverse of the EU's GDP per capita average. However, this formula implies no progressivity with respect to relative prosperity in allocations to Ukraine compared to Poland or Romania, all being capped at the 150% level. Other variables entering the RRF calculations include unemployment (see Annex Table 5).

The present capping rule for Cohesion funding would result in unreasonably low allocations

Overall, the rules for allocating Cohesion spending are complex, with many variables defining both minima and maxima, the outcome of long negotiations, and compromises between the EU and member states. However, the main point for Ukraine is that the present capping rule for Cohesion funding would result in unreasonably low allocations, way below the annual amounts already proposed under the €50 billion Ukraine Facility for 2024-27. There would surely be negotiated a better adapted capping rule, which might be revised in any case for the next MFF.

4.2.2. Agriculture

The allocation of funding under the Common Agricultural Policy (CAP) is a two-step procedure. First, there is a negotiation in the Council over the total financial "envelopes" for farm spending by member states. Second, member states have degrees of freedom over how to allocate the envelopes internally. This two-step procedure is especially important for the main funding mechanism, consisting of direct payments to farms, which account for 70% of total farm spending.

The average direct payments to farms of the 27 member states amount to €255 per hectare, with Poland at €230 and Romania at €200.[22] Of this, around one-half is the "basic payment," with the remainder made up of other special regimes, the most important of which is "greening," where payments are conditional

[21] For common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, etc., see: The European Parliament and the Council, "Annex XXVI" in Regulation (EU) 2021/1060 (Brussels: Official Journal of the European Union, 24 June 2021); For a complete definition of this capping mechanism, see Annex Table 5.

[22] European Commission, Summary Report on the implementation of direct payments [except greening], Claim year 2021 (Brussels: European Commission, June 2023).

on ecological criteria.[23] For example, Poland has set its basic payment at €100 per hectare, which with greening and other elements, raises the total to €230 per hectare.

Of crucial relevance for Ukraine is a regime of capping direct payments to large farms

Of crucial relevance for Ukraine is a regime of capping direct payments to large farms; it is, however, a voluntary decision by the member states whether to apply it and how. The capping regime has undergone important revisions over the last decade. Currently, only eight member states have capping regimes, with a standard absolute cap at the level of €100 000 per farm; in some cases, there is degressivity under this ceiling, whereas a decade earlier, 22 member states employed these caps. Significantly for Ukraine, Poland now has no capping mechanism, whereas a decade earlier, it capped at the level of €150 000 per farm.[24] The reason for the decline in capping has been its ineffectiveness in practice, with tendencies towards circumvention, for example, by artificial but legal subdivisions of large farms into smaller units.

This makes highly relevant the exceptional size structure of Ukrainian farms (see Annex Table 6). In Ukraine, the size categories accounting for the highest share of the total are the 2 481 farm enterprises in the size range of 1 000 to 2 000 hectares (17.8% of agricultural land), and the 166 mega-farms of 10 000 hectares or more (18.3% of agricultural land). The largest farm has 142 000 hectares. The average size of arable land of Ukrainian farm enterprises amounts to 485 hectares. This makes for a huge contrast with the EU: in France, the average farm size is 30 hectares, with 8 hectares and 2 hectares in Poland and Romania, respectively.[25]

As and when Ukraine accedes to the EU, there will surely be strong pressure to reform and restore an effective capping mechanism. For example, the average size of Ukraine's 166 mega-farms is 21 945 hectares per enterprise. With direct payments at the current minimum of €215 per hectare, the average mega-farm would receive €4.7 million per year. The political implications of such payments would surely be unacceptable, given the aggravation of income inequalities within Ukraine, as well as the controversy that would be stirred up within the EU itself. A further key factor to note here is the time horizon over which direct payments would be introduced (with the precedents of ten-year transitional phasing in).

As and when Ukraine accedes to the EU, there will surely be strong pressure to reform and restore an effective capping mechanism

Overall, the EU has negotiated with its member states an extremely complex set of rules defining financial entitlements, with flexibility over their application given to member states. For Ukraine, the most pertinent finding is that the predominant system of direct payments to farms could be subject to a capping regime for very large farms. How the EU and Ukraine would negotiate their specific regime is, of course, unknown as of today. However, precedents exist for negotiating caps that would avoid a politically implausible scale of grants for the mega-farms.

23 Farmers receive the green direct payment if they comply with three mandatory practices that benefit the environment (soil and biodiversity in particular), see: "Agriculture and rural development: Common Agricultural Policy, Sustainable land use (greening)," European Commission, last accessed in September 2023.

24 European Commission, *Direct Payments: Financial mechanisms in the new system* (Brussels: European Commission, June 2016); For reductions applied by each member state, see Annex Table 1.

25 "Agriculture statistics - family farming in the EU," Eurostat Statistics Explained, data extracted in October 2019.

5. International Funding to Support Ukraine and Its Post-War Reconstruction

The biggest uncertainty hovering over the pressure for EU budget funds for Ukraine is how much the post-war reconstruction will cost and how it will be financed. The EU and the US are the biggest contributors to official funding, but there is also broad western support from G7 members and other states, the main international financial organisations, and potentially large sums of private capital.

The biggest uncertainty hovering over the pressure for EU budget funds for Ukraine is how much the post-war reconstruction will cost and how it will be financed

The Kiel Institute for the World Economy is keeping the score with its publication "Ukraine Support Tracker."[26] From January 2022 to May 2023, it recorded €165 billion of governmental commitments, with almost the same amounts coming from the US (€70.7 billion) and the EU institutions and member states (€68.4 billion). The US contributions are heavily weighted with military contributions, whereas the EU leads with financial and humanitarian aid, including refugee costs. The EU data in this source do not yet record the proposed 50 billion Ukraine Facility, since it is so far only a proposal of the Commission, albeit likely to be agreed.

5.1. Ukraine's Needs

Estimates are being made of both Ukraine's short-run macro-financial needs and the longer-run costs of recovery and reconstruction.[27]

For the shorter run, the IMF estimated in March 2023 Ukraine's macro-financing gap (excluding reconstruction aid) up to 2027 to reach €75.1 billion (annual average of €15 billion) and agreed to a €14.4 billion four-year programme (annual average €3.6 billion) to support economic stability and recovery, presented in the context of post-war reconstruction and Ukraine's path of accession to the European Union.

As for the cost of war damages, the Kyiv School of Economics, together with the World Bank, have taken a leading role in keeping the score. By the end of 2022, they estimated that damages to physical infrastructure had reached $143 billion, of which the primary headings were $53.6 billion for housing and $36.2 billion for infrastructure.[28] The World Bank published in March 2023 its updated assessment of the war damages. Their estimates include the Kyiv School estimates above and also cover a wider range of costs, including land contamination, as well as losses of agricultural and industrial production, with a total of $411 billion, or €383 billion.[29] A scenario was presented with a ten-year recovery and reconstruction programme until 2033, implying an annual average of €38.4 billion. Its priorities include restoration and repair of energy and other critical and social infrastructure, housing, humanitarian demining, and support to the private sector.

Taking together the annualised estimates for 2024 to 2027 of €15 billion for the IMF and €38.4 for the World Bank, the total estimated needs reach an annual €53.billion

Taking together the above-annualised estimates for 2024 to 2027 of €15 billion for the IMF and €38.4 for the World Bank, the total estimated needs reach an annual €53. billion. The EU's new Ukraine Facility of €50 billion (annual average €12.5 billion) for these four years amounts to a quarter of the total. For the remainder, the IMF and World Bank will

[26] "Ukraine Support Tracker. A Database of Military, Financial and Humanitarian Aid to Ukraine," Kiel Institute for the World Economy, last modified on 31 July 2023.

[27] Torbjorn Becker, "The EU Cannot Afford Not to Support Ukraine Financially," *Stockholm Centre for Eastern European Studies* No 32 (March 2023).

[28] "During the year of the full-scale war, the total amount of damages caused russia to Ukraine's infrastructure has reached almost $143.8 billion," Kyiv School of Economics, 22 March 2023.

[29] World Bank, Government of Ukraine, European Union, United Nations, *Updated Ukraine Recovery and Reconstruction Needs Assessment: February 2022 - February 2023 (English)* (Washington, DC. World Bank Group, March 2023).

be making significant contributions, including the IMF's pledge of €3.6 billion, while the amount to come from the World Bank, other multilateral institutions, and donor states is unknown.

5.2. Western Donor Coordination

Switzerland sponsored together with Ukraine a first Lugano Conference in July 2022, with the event subsequently called the Ukraine Recovery Conference. The first conference, attended by 58 states and organisations, adopted the Lugano Declaration and set out principles for the governance of support for Ukraine.[30] It has developed into an ongoing series of conferences that are still mainly concerned with the principles and methodology of support without seeking to assemble quantified pledges at all comprehensively. At its most recent conference in London on 21 June 2023, the Commission did, however, present its proposed €50 billion Ukraine Facility supplemented by details of its collaboration with the EIB and EBRD on €800 million of investments, with guarantees from the Commission.[31]

Subsequently, in December 2022, the G7 took up the initiative to establish the Multi-agency Donor Coordination Platform (MDCP), which met for the first time on 26 January 2023. The purpose of this process – co-chaired by the European Commission, the US, and Ukraine – is to:[32]

> [B]etter coordinate economic support for Ukraine's immediate financing needs and future economic recovery and reconstruction efforts. They committed to work closely with Ukrainian authorities to define, prioritize, and sequence strategic economic needs; to further Ukraine's reform ambitions; and to deliver economic assistance to stabilize Ukraine's economy and underpin a sustainable and inclusive recovery.

More concretely, the MDCP has established a certain niche in the process, seeking to match project needs with offers of funding, as well as to assure that priorities are met while avoiding duplication of ill-coordinated efforts. Its Steering Committee meets regularly, most recently on 25 July 2023.[33] Like the Lugano conferences, it neither seeks pledges nor provides insight into overall funding perspectives.

5.3. Leveraging in Private Capital

In December 2022, President Volodymyr Zelensky and Mr Larry Fink, CEO of the Blackrock asset management enterprise (which manages over $1 trillion of investments), announced an initiative to create a coordination mechanism for all potential investors in Ukraine's reconstruction.[34] This has not yet led to operational fundraising, but it opens the agenda for ideas.

Given the high perceived risk of investing in Ukraine, thought is being given to how official financial mechanisms might guarantee private investment. One idea would be to draw on the Brady Bonds experience launched in 1989 by the then US Treasury Secretary, Nicholas Brady, under which high-risk Latin American states were able to issue hard currency bonds with the collateral backing of US Treasury bonds.[35] The mechanism was employed by most of Latin America and several other states, including Russia, Bulgaria, Nigeria, and the Philippines. By 1996, the mechanism had supported a total of $190 billion in borrowings, which has since

Given the high perceived risk of investing in Ukraine, thought is being given to how official financial mechanisms might guarantee private investment

30 "Ukraine Recovery Conference (URC2022) in Lugano," Federal Department of Foreign Affairs, last accessed in September 2023.

31 "Ukraine Recovery Conference: President von der Leyen and Executive Vice-President Dombrovskis showcase strong EU support with new €50 billion Ukraine Facility and €800 million in agreements to mobilise investment for Ukraine's recovery," European Commission, 21 June 2023.

32 "Readout of Inaugural Meeting of Ukraine Donor Coordination Platform Steering Committee," the White House, 26 January 2023.

33 "Donor Coordination Platform for Ukraine," Donor Coordination Platform for Ukraine, last accessed in September 2023.

34 Andrew Moran, "Zelenskyy, BlackRock Announce New Investment Initiative to Rebuild Ukraine," Innovations for Successful Societies, Princeton University, 28 December 2022; "President discussed with the CEO of BlackRock the coordination of efforts to rebuild Ukraine," President of Ukraine, 28 December 2022.

35 Adam Hayes, "Brady Bonds: What it is, How it Works, Examples," *Investopedia*, 19 October 2022.

been generally successfully wound down as bonds were redeemed, with only one default (Ecuador).

One application inspired by the Brady Bonds and advocated for Ukraine is that collateral security should be supplied by the IMF, using its reserve of unallocated Special Drawing Rights (SDRs), which are estimated to amount to between $40 and 90 billion.[36] Under this proposal, the US Treasury, the EU, and other G7 states could also contribute collateral assets. Overall, something comparable to the Brady Bonds experience could become a major funding source. However, the Zelensky-Fink initiative seems not to have led to operational developments or necessary official commitments yet.

5.4. Making Russia Pay

The Russian Central Bank's assets – currently frozen in western financial institutions – are believed to amount to around $300 billion, with the majority held in EU member states.[37] These frozen assets are, in theory, sufficient to make a major contribution to paying for the repair of the damages in Ukraine caused by Russian hostilities. The idea of seizing these assets and putting them to this use is most tempting and, in the present context, would greatly reduce the claim on EU budget resources required to support Ukraine's economy and reconstruction. However, such a course of action is complicated by the conventional legal immunity from seizure of sovereign assets held in foreign countries where they may be deposited. Whether there is for the Russian frozen assets a legally justified case for derogation from immunity is contested. In the paper cited, the legal case for the exceptional seizure of these Russian assets is supported. Canada is the only state that has legislated to enable this to be done. In the US, there is a bill before Congress to do this, and the outcome is uncertain since the US Treasury opposes the idea, and the President could veto the legislation if passed by Congress. Estonia has been preparing legislation, which – if adopted – would set a precedent for other EU member states.

In the European Union, the President of the Commission, Ursula Von der Leyen, has taken a strong line in principle, saying that "Russia must pay."[38] However, there is not yet a legislative proposal, and it is known that the European Central Bank opposes the idea on the grounds that it would weaken the reputation of the euro as an international currency. At the time of writing, the focus was on the €180 billion of Russian balances held at the Euroclear mechanism based in Belgium.[39] The Commission, November 2022, proposed a two-stage action. In the short run, the current investment income derived from these assets would be made available to pay for Ukrainian reconstruction, which could amount to around €7-8 billion per year. Ultimately, the capital amounts would be seized. However, there is so far no agreement between the EU and its member states to act along these lines. The limited use of the investment income would still be a useful contribution to easing the budgetary burden of aid to Ukraine.

The broad strategic context will open up as and when the war ends with conceivable negotiations over a peace deal. At some point, the question of formal or de facto reparations may arise. A viable package could, in principle see an agreement to use these assets for the reconstruction of Ukraine alongside an end to various EU and western sanctions. But this scenario is, for the time being, way beyond the horizon.

A peace deal could, in principle see an agreement to use these assets for the reconstruction of Ukraine alongside an end to various EU and western sanctions

[36] Timothy Ash and Polina Kurdyavk, "Rebuilding Ukraine: A Historic Plan for Congress," *Center for European Policy Analysis (CEPS)*, 25 January 2023.

[37] Michael Emerson and Steven Blockmans, "The $300 billion Question – How to get Russia to Pay for Ukraine's Reconstruction," *CEPS,* 15 December 2022.

[38] "Statement by President von der Leyen on Russian accountability and the use of Russian frozen assets," European Commission, 30 November 2022.

[39] Martin Sandbu, "The EU is doubled up over the riddle of Russia's euro assets," *Financial Times*, 18 July 2023.

6. Time Horizon

To introduce more realism and relevance to the estimates of the possible cost of Ukraine to the EU budget, plausible timeframes have to be brought into account.

The delay between the opening of negotiations and accession will take an unknown but considerable number of years. One reference can be that of the most recent accession: that of Croatia in 2013 (which took place ten years after the application in 2003, with negotiations beginning in 2005). However, Ukraine is already more advanced in terms of acquis compliance than Croatia was in 2003.

If Ukraine's application in 2022 is followed by an opening of negotiations at the end of 2023, a hypothesis could be for accession to take place in 2030, even if some observers would consider this to be optimistic, and President Macron is on record mentioning decades in the plural.[40] The six current Western Balkan applicants have been waiting two decades since the Thessaloniki Declaration of 2003 that set out the EU's commitment to accept the whole region, with not one of them close to accession today. However, Charles Michel, President of the European Council, proposed on 28 August 2023 that 2030 be set as a target date for the EU to be prepared for a new enlargement.[41]

Recent accessions have been subject to various transitional delays. For Bulgaria, Romania, and Croatia, the existing member states were able to delay the full opening of the labour market by up to 7 years. In addition, of major importance for the budget, direct payments under the agricultural policy have been subject to a ten-year transitional phase in the cases of all enlargements since 2004. Upon accession, only 25% of the full amounts for direct payments are applied, with further annual steps of 5% or 10% points until the 100% is reached. For Ukraine, there may be pressures also for a transitional delay before full market opening for trade in agricultural policy, considering that in May 2023, Poland, Hungary, Slovakia, Romania, and Bulgaria refused to accept imports of Ukrainian cereals except for transit, which the Commission felt obliged to recognise as a temporary measure until September 2023.

Overall, if Ukraine were to accede in 2030 and there was a ten-year transition for agricultural spending, the full impact on the EU budget would not happen until 2040. With such a long-time horizon, there will definitely be changes in the GNI of member states. For example, it is possible that Poland and Romania will make continuing advances in their relative prosperity, which could reduce their calls on cohesion funds and thus the impact on the total EU budget of expenditures for Ukraine. However, it is too speculative to be factored into the above calculations.

If Ukraine were to accede in 2030 and there was a ten-year transition for agricultural spending, the full impact on the EU budget would not happen until 2040

In addition, in the current debate about the need to reform the EU's enlargement methodology, the most cited proposal is for "Staged Accession," assuming that there would be progress along four stages conditional on policy performance, without a fixed timetable but with funding and institutional participation built up from stage to stage.[42]

Conclusions and Recommendations

A first answer to the question of how Ukraine's accession to the EU would impact the EU budget can be based on a deliberately formal and simple hypothesis that Ukraine would be a full member state today. It would be subject to all current budget expenditure and revenue policies, excluding the Recovery and Resilience Facility (RRF), which is intended to be temporary.

[40] "Ukraine bid to join EU will take decades says Macron," *BBC*, 10 May 2022.

[41] Ivana Sekularac, "Head of European Council says EU must be ready for new members by 2030," *Reuters*, 28 August 2023.

[42] Milena Mihajlovic, Steven Blockmans, Srahinja Subotic, and Michael Emerson, "A Template for Staged Accession to the EU," *CEPS*, 28 August 2023.

This formal hypothesis can be subject to quantitative estimates based on what the closest comparator member states – Poland and Romania – receive and contribute, scaled with key Ukrainian parameters. The central result is estimated to be around €18.9 billion per year in net receipts (i.e., net of contributions), or about 10.5% of the 2022 EU budget appropriations for commitments (€179 billion, again excluding the RRF). By comparison, the EU's proposed €50 billion Ukraine Facility for the four years (2024-27) amounts to an annual €12.5 billion, not so far off the above estimate if a full member state. As and when the EU allocates significant further budgetary resources to Ukraine, there may be calls for the EU to make at least some degree of compensatory reductions in other budget headings.

The central result is estimated to be around €18.9 billion per year in net receipts or about 10.5% of the 2022 EU budget appropriations for commitments

Fears that Ukraine's accession might break the EU's budget or contain huge open-ended commitments can be greatly alleviated by several control valve or capping mechanisms

Fears that Ukraine's accession might break the EU's budget – or contain huge open-ended commitments – can be greatly alleviated by several control valve or capping mechanisms that already exist and could be further adapted to the case of Ukraine. This concerns both main spending categories: cohesion and agricultural policies. Cohesion funds are currently capped as a share of member states' GDP; for agricultural payments, there is an optional regime for limiting grants to large farms. In both cases, there would be the need for negotiations to set these caps at plausible and mutually acceptable levels. For the farm sector, this does not address already apparent tensions over access to the EU market.

It is sometimes vaguely rumoured that the budgetary cost of Ukraine's membership could tip all the current net beneficiary member states into net payers. Our calculations show that this speculation – or maybe disinformation – is absolutely unfounded. Only one member state, Spain, would fall into this category, and none of the member states acceding from 2004 on, all of whom would remain substantial net beneficiaries.

Encouragingly, the EU and its member states have, in recent years, shown a remarkable political capacity to reform the EU budget regime in order to absorb major economic and political shocks, including the post-Covid recovery and now the Ukraine challenge. The budget ceiling has been adapted and large-scale borrowing introduced together with plans for new resources.

To try and think ahead beyond the above estimates to the time when Ukraine might realistically become a full member state requires bringing into account several huge uncertainties:

- **First** is the time horizon. The most recent enlargement – that of Croatia – took a decade from the time of application, while the Western Balkans have not advanced in two decades. Hypothetically, if Ukraine's accession took place in 2030, followed by 10 years of transitional phasing in of agricultural spending, the full budgetary impact would not be felt until 2040. By this time, many things will change, including how fast-growing economies such as Poland and Romania may have advanced to the point of becoming eligible for only reduced cohesion funding, thus creating room for new member states, while inflation may gradually erode the real cost of direct payments for agriculture.

- **Second** is the outcome of the war, with its costs, as estimated so far by the World Bank to reach $411 billion (€383 billion), leading to a scenario for a ten-year programme of €38.4 billion per year. The big open question is over who – beyond the EU with its budget – is going to pay for Ukraine's reconstruction and recovery. The main candidates are other G7 states, the IMF, the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the international private sector. The EU has taken the lead with its proposed Ukraine Facility; if G7 states and other partners matched that as a next step, the entire process would be well set to advance.

- **Third**, and related, is the possible mobilisation of at least some of Russia's $300 billion of frozen assets, of which the largest part is located in the EU. While this is legally and diplomatically a very tricky matter, it may happen at some point in the form of reparations, making potentially a major contribution and thereby taking part of the burden off from the EU and other donors.

- **Fourth** is over how far the EU's important current budget innovations will blend into the future system. While the RRF is intended to be temporary, the new borrowing facilities (e.g., EU-Bonds and EU-Bills) and new own resources proposed under the NGEU look like becoming permanent instruments. For Ukraine, this is also suggested by the fashioning of the new proposed €50 billion Ukraine Facility along the lines of the NGEU – i.e., by borrowing. As a result, these large-scale expenditures will result in much delayed budgetary contributions, with the range of maturities of the EU-Bonds extending up to 30 years.

The potential budgetary impact of Ukraine's accession appears to be a relatively manageable prospect

Overall, the potential budgetary impact of Ukraine's accession appears to be a relatively manageable prospect, certainly by comparison with the more formidable political, security, economic, and demographic challenges. The EU budget has already been making significant progress in the scale of its proposals and commitments towards what Ukraine might expect with full accession. In addition, ongoing reforms in the budget system (especially for borrowing) are already essential to providing the legal and instrumental framework for continuing the development of operations in Ukraine, including for its reconstruction and recovery.

Hence, this policy paper presents the following recommendations:

- With the imminence of decisions about whether to open accession negotiations with Ukraine, the European Commission should now produce an analytical working document assessing what – on present policies – Ukraine's accession would mean for the EU budget.

- To dispel unfounded and exaggerated speculation over the possible size of these budget costs, the Commission should, in this working document, explain the existing control valves through capping mechanisms that already exist in cohesion and agricultural policies and could be further adapted with Ukrainian accession.

- With regard to the Russian Central Bank's assets currently frozen in EU and other G7 financial institutions, the EU should confirm that these will never be released as long as Russia illegally occupies Ukrainian territory, while their use as reparations could form part of a peace settlement, reducing the pressures bearing on the EU budget.

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Annexes

Annex Table 1. Multiannual Financial Framework of the 2023 EU Budget (€ millions)

	Heading	2021	2022	2023	2024	2025	2026	2027	Total
	COMMITMENT APPROPRIATIONS								
1.	**Single Market, Innovation and Digital**	**20 919**	**21 878**	**21 727**	**20 984**	**21 272**	**21 847**	**22 077**	**150 102**
2.	**Cohesion, Resilience and Values**	**6 364**	**67 806**	**70 137**	**72 367**	**74 993**	**66 536**	**70 283**	**427 582**
2a.	Economic, social and territorial cohesion	1 769	61 345	62 939	64 683	66 479	56 725	58 639	372 579
2b.	Resilience and values	4 595	6 461	7 198	7 684	8 514	9 811	11 644	55 003
3.	**Natural Resources and Environment**	**56 841**	**56 965**	**57 295**	**57 449**	**57 558**	**57 332**	**57 557**	**400 997**
	of which: Market related expenditure and direct payments	40 368	40 639	40 693	41 649	41 782	41 913	42 047	289 091
4.	**Migration and Border Management**	**1 791**	**3 360**	**3 814**	**3 866**	**4 387**	**4 315**	**4 465**	**25 847**
5.	**Security and Defence**	**1 696**	**1 896**	**1 946**	**2 004**	**2 243**	**2 435**	**2 705**	**41 925**
6.	**Neighbourhood and the World**	**16 247**	**16 802**	**16 329**	**15 830**	**15 304**	**14 754**	**15 331**	**110 597**
7.	**European Public Administration**	**10 635**	**11 058**	**11 419**	**11 773**	**12 124**	**12 506**	**12 959**	**82 474**
	of which: Administrative expenditure of the institutions	8 216	8 528	8 772	9 006	9 219	9 464	9 786	62 991
	TOTAL COMMITMENTS	**114 493**	**179 765**	**182 667**	**184 273**	**187 881**	**179 725**	**185 377**	**1 212 524**
	TOTAL PAYMENTS	**166 140**	**170 558**	**168 575**	**168 853**	**172 230**	**175 674**	**179 187**	**1 196 835**

Source: European Union, *Definitive adoption of the European Union's annual budget for the financial year 2023*, OJ L58/14 (Brussels: Official Journal of the European Union, 23 February 2022).

Annex Table 2. World Bank Estimates of Total Damage, Loss, and Needs by Sector ($ billions)

Sector	Damage	Loss	Needs
Social sectors			
Housing	50,4	17,2	68,6
Education and science	4,4	0,8	10,7
Health	2,5	16,5	16,4
Social protection and livelihoods	0,2	4.2(a)	41,8
Culture and tourism	2,6	15,2	6,9
Infrastructure sectors			
Energy and extractives	10,6	27,2	47,0
Transport	35,7	31,6	92,1
Telecommunications and digital	1,6	1,6	4,5
Water supply and sanitation	2,2	7,5	7,1
Municipal services	2,4	3,0	5,7
Productive sectors			
Agriculture	8,7	31,5	29,7
Commerce and industry	10,9	85,8	23,2
Irrigation and water resource management	0,4	0,3	8,9
Finance and Banking	0,0	6,8	6,8
Cross-cutting sectors			
Environment, natural resource management, and forestry(b)	1,5	0,5	1,5
Emergency response and civil protection	0,2	0,5	1,5
Governance and public administration	0,3	1,4	0,6
Explosive hazard management	-	37,6	37,6
Total	**134,7**	**289,1**	**410,6**

Source: World Bank, Government of Ukraine, European Union, United Nations, *Updated Ukraine Recovery and Reconstruction Needs Assessment: February 2022 - February 2023 (English)* (Washington, DC: World Bank Group, March 2023).

Annex Table 3. Details of the Estimation of Ukraine's Hypothetical EU Budget Receipts and Contributions in 2022 (€ millions)

	Total
Agriculture receipts	
UA agr = PL 4 792 x UA land/PL land (2.5)	11 980
UA agr = RO 2 854 x UA land/RO land (3.1)	8 847
Average PL + RO	10 413
UA agr = FR 9 352 x UA land/FR land (.85)	7 949
Cohesion receipts	
UA coh = PL 12 312 x UA pop/PL pop (.83)	10 217
UA coh = RO 4 906 x UA pop/RO pop (1.6)	7 849
UA average Pl + Ro	9 033
Other receipts	
UA oth = PL 1 215 x UA pop/PL pop (.83)	1 008
UA oth = RO 401 x UA pop/RO pop (1.6)	641
UA average Pl + Ro	825
Contributions	
UA con = PL 7 178 x UA/PL GNI (21.8%.)	1 565
UA con = RO 2 645 x UA/RO GNI (50.2%)	1 328
UA average PL + RO	1 446

Source: Author's own calculations.

Annex Table 4. Calculation of How Ukraine's Accession Might Impact Net Balances of Member States in the EU Budget

	1 Expenditures € billion	2 Contributn., total own resources € billion	3 Net balance, 2022, € billion	4 GNI € billion	5 GNI % EU	6 Contribn. to UA €18.9bn., € billion	7 Net balance with UA € billion
BE	11.212	7.767	+3.445	549.456	3.47	-.655	+2.790
BG	2.343	854	+1.489	84.560	0.53	-.094	+1.395
CZ	5.294	2.646	+2.648	276.620	1.74	-.329	+2.139
DK	2.186	3.234	-1.036	376.089	2.38	-449	-1.485
DE	14.159	35.704	-21.545	3 867.050	24.46	-4.623	-26.168
EE	1.253	373	+880	36.181	0.22	-.041	+839
IE	2.340	3.496	-1.156	502.583	3.17	-.599	-1.755
EL	5.581	2.415	+3.166	208.030	1.31	-.247	+3.125
ES	14.248	13.794	+494	1 327.108	8.39	-1.586	-1.092
FR	16.892	26.476	-9.584	2 642.713	16.7	-3.156	-12.740
HR	2.059	609	+1.450	66.939	0.42	-.079	+1.371
IT	14.592	19.510	-4.918	1,909.153	12.1	-2.287	-7.205
CY	488	249	+239	27.006	0.17	-.032	+207
LV	1.375	381	+994	39.062	0.24	-.045	+949
LT	2.238	655	+1.583	66.832	0.42	-.079	+1.504
LU	2.839	535	+2.304	78.130	0.49	-.092	+2.212
HU	6.062	1.842	+4.220	170.232	1.07	-.189	+4031
MT	264	155	+109	16.870	0.10	-.019	+92
NL	3.510	9.801	-6.291	941.186	5.95	-1.130	-7.421
AT	2.265	3.579	-1.314	447.652	2.82	-.533	-1.847
PL	18.319	7.178	+11.141	656.385	4.15	-.784	+10.357
PT	5.274	2.463	+2.811	239.253	1.51	-.285	+2.526
RO	8.161	2.645	+5.496	285.889	1.80	-.340	+5,156
SI	944	715	+229	58.889	0.37	-.069	+160
SK	3.179	1.031	+2.148	109.651	0.68	-.128	+2.020
FI	1.773	2.529	-759	266.679	1.68	-.317	-1,076
SE	2.124	4.430	-2.306	557.436	3.52	-.665	-2.971
EU27	**151.297***	**155.758**		**15 807.743**	**100.00**	**-18.852**	
UA							**+18.852**

*Excluding NGEU
Source: Author's own calculations based on European Commission, EU spending and revenue (2000-22).

Annex Table 5. Maximum Levels of Transfers from the Funds Supporting Economic, Social and Territorial Cohesion

In order to contribute to achieving adequate concentration of cohesion funding on the least developed regions and Member States and to the reduction of disparities in average *per capita* aid intensities, the maximum level of transfer (capping) from the Funds to each individual Member State shall be determined as a percentage of the GDP of the Member State, whereby these percentages will be as follows:	
(a)	for Member States whose average GNI *per capita* (in PPS) for the 2015-2017 period is under 55 % of the EU-27 average *per capita*: 2,3 % of their GDP
(b)	for Member States whose average GNI *per capita* (in PPS) for the 2015-2017 period is equal to or above 68 % of the EU-27 average *per capita*: 1,5 % of their GDP
(c)	for Member States whose average GNI *per capita* (in PPS) for the 2015-2017 period is equal to or above 55 % and below 68 % of the EU-27 average *per capita*: the percentage is obtained through a linear interpolation between 2,3 % and 1,5 % of their GDP leading to a proportional reduction of the capping percentage in line with the increase in prosperity
The capping shall be applied on an annual basis to the GDP projections of the Commission, and shall - if applicable - proportionally reduce all transfers (except for the more developed regions and European territorial cooperation goal (Interreg)) to the Member State concerned in order to obtain the maximum level of transfer.	

Source: The European Parliament and the Council, "Annex XXVI" in *Regulation (EU) 2021/1060* (Brussels: Official Journal of the European Union, 24 June 2021).

Annex Table 6. Methodology for the Calculation of the Maximum Payments Per Member State under the RRF

The method takes into account, with regard to each Member State:
— the population;
— the inverse of the GDP per capita;
— the average unemployment rate over the past five years compared to the Union average (2015-2019);
— the fall in real GDP in 2020 and the fall in real GDP in 2020 and 2021 combined.
To avoid excessive concentration of resources:
— the inverse of the GDP per capita is capped at a maximum of 150 % of the Union average;
— the deviation of an individual Member State's unemployment rate from the Union average is capped at a maximum of 150 % of the Union average;
— to account for the generally more stable labour markets of wealthier Member States (with GNI per capita above the Union average) the deviation of their unemployment rate from the Union average is capped at a maximum of 75 %.

Source: The European Parliament and The Council, *Regulation (Eu) 2021/241 establishing the Recovery and Resilience Facility*, OJ L 57 (Brussels: Official Journal of the European Union, 12 February 2021), 17.

Annex Table 7. Distribution of Enterprises Engaged in Agricultural Activity (by agricultural land size as of 1 November 2017)

	Number of Enterprises		Area of Agricultural Land	
	Units	% to Total Enterprises	thsd.ha	% to Total Area of Agricultural Land
Enterprises which had agricultural land	40 735	89,4	19960,2	100,0
Including of land, ha < 5,0	3 138	6,9	10,1	0,1
5,1 - 10,0	2 594	5,7	20,3	0,1
10,1 - 20,0	3 937	8,6	61,0	0,3
20,1 - 50,0	11 263	24,7	424,9	2,1
50,1 - 100,0	4 903	10,8	354,3	1,8
100,1 - 500,0	7 372	16,2	1797,1	9,0
500,1 - 1,000,0	2 651	5,8	1891,4	9,5
1000,1 - 2000,0	2 481	5,4	3570,9	17,8
2000,1 - 3000,0	1 084	2,4	2649,2	13,3
3000,1 - 4000,0	471	1,0	1635,4	8,2
4000,1 - 5000,0	276	0,6	1236,1	6,2
5000,1 - 7000,0	261	0,6	1526,3	7,6
7000,1 - 10000,0	138	0,3	1140,1	5,7
> 10000,0	166	0,4	3643,1	18,3
Enterprises which did not have agricultural land	4 823	10,6		

Source: State Statistics Service of Ukraine, *Agriculture of Ukraine, Statistical Yearbook* (Kyiv: State Statistics Service of Ukraine, 2017).

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