EUROPEAN PARLIAMENT

1999 *2004*

Session document

FINAL
A5-0178/2002

23 May 2002

REPORT

on the financial impact of the enlargement of the European Union
(2002/2045(INI))

Committee on Budgets

Rapporteur: Reimer Böge

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PROCEDURAL PAGE

At the sitting of 11 April 2002, the President of Parliament announced that the Committee on Budgets had been authorised to draw up an own-initiative report, pursuant to Rule 163 of the Rules of Procedure, on the financial impact of the enlargement of the European Union and that he had asked the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, the Committee on Agriculture and Rural Development, and the Committee on Regional Policy, Transport and Tourism for their opinion.

The Committee on Budgets had appointed Reimer Böge rapporteur at its meeting of 27 February 2001.

It considered the draft report at its meetings of 17 April, 13 May and 22 May 2002.

At the latter meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Terence Wynn, chairman; Francesco Turchi, vice-chairman; Reimer Böge, rapporteur; Generoso Andria (for Thierry B. Jean-Pierre), Ioannis Averoff, Pervenche Berès (for Manuel António dos Santos), Kathalijne Maria Buitenweg, Paulo Casaca (for Simon Francis Murphy), Joan Colom i Naval, John Alexander Corrie (for James E.M. Elles), Den Dover, Bárbara Dührkop Dührkop, Göran Färm, Salvador Garriga Polledo, Neena Gill, Catherine Guy-Quint, Jutta D. Haug, María Esther Herranz García, Ian Stewart Hudghton, Wolfgang Ilgenfritz, Hedwig Keppelhoff-Wiechert (for Edward H.C. McMillan-Scott), Eva Klamt (for Markus Ferber), Constanze Angela Krehl, Erika Mann (for Wilfried Kuckelkorn), Mario Mantovani (for Alain Madelin), Véronique Mathieu (for Michel Raymond), John Joseph McCartin, Jan Mulder, Juan Andrés Naranjo Escobar, Joaquim Piscarreta (for Giuseppe Pisicchio), Giovanni Pittella, Per Stenmarck, Kyösti Tapio Virrankoski, Ralf Walter and Brigitte Wenzel-Perillo.

The opinions of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, the Committee on Agriculture and Rural Development, and the Committee on Regional Policy, Transport and Tourism are attached.

The report was tabled on 23 May 2002.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the financial impact of the enlargement of the European Union (2002/2045(INI))

The European Parliament,

– having regard to the Treaty on European Union, and in particular Article 49 thereof,

– having regard to the Interinstitutional Agreement of 6 May 1999[1] on budgetary discipline and improvement of the budgetary procedure,

– having regard to its resolution of 29 November 2001 on the preparation of the Laeken European Council of 14-15 December 2001[2],

– having regard to its resolution of 29 November 2001 on the protection of the Community's financial interests[3],

– having regard to its resolution of 5 September 2001 on the enlargement of the European Union[4],

– having regard to its resolution of 14 December 2000 on the outcome of the European Council on 7-11 December 2000 in Nice[5],

– having regard to its resolution of 4 October 2000 on the enlargement of the European Union[6],

– having regard to the Commission Communication on the Common Financial Framework 2004-2006 for the Accession Negotiations (SEC(2002) 102),

– having regard to Rule 163 of its Rules of Procedure,

– having regard to the report of the Committee on Budgets and the opinions of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, the Committee on Agriculture and Rural Development, and the Committee on Committee on Regional Policy, Transport and Tourism (A5-0178/2002),

A. whereas accession negotiations are on their way with 12 countries in Central and Eastern Europe and the Mediterranean, of which 10 countries have prospects of concluding the negotiations in 2002 and acceding to the Union in 2004, whilst in the case of Bulgaria and Romania, accession before the end of the current financial perspective will depend on the progress which those two countries are able to make over the next few months,

B. whereas according to Article 49 of the EU Treaty the accession of new Member States

[1] OJ C 172 of 18.6.1999, p. 1
[2] Texts adopted, item 18
[3] Texts adopted, item 22
[4] Texts adopted, item 7
[5] Texts adopted, item 13
[6] OJ C 178 of 22.4.2001, p. 112

requires the assent of the European Parliament, and whereas the financial framework for the accession of new Member States can only be determined in agreement between Parliament and Council as the two arms of the budgetary authority,

C. whereas the Member States and the candidate countries alike have already derived great benefit from the prospect of accession in the form of political stability, cultural exchange, greater sustainability and an increase in trade and economic growth, factors which are all inextricably interlinked; whereas the commitment to the objective of economic and social cohesion, which has to be reached over a longer period, is confirmed,

D. whereas all remaining chapters in the framework of the accession negotiations with 10 candidate countries might be concluded in 2002 so that the first phase of enlargement would be possible in 2004,

E. whereas the indicative financial framework for enlargement included in the Interinstitutional Agreement of 6 May 1999 is based on the assumption of the accession of 6 new Member States in 2002; and that currently the accession of 10 new Member States is prepared; whereas heading 8 gives indicative ceilings for the adjustments to be made to the financial perspective after enlargement,

F. whereas the current financial perspective was established for the period 2000-2006, which makes it necessary in 2005, at latest, for the budgetary authority, on a proposal from the Commission, to start considerations about the option to prolong the current financial perspective due to an ongoing enlargement process or about the period of the new financial perspective,

G. whereas the Commission has presented a Communication on the common financial framework 2004-2006 for the accession negotiations on 30 January 2002, which serves as basis for the draft common positions for the chapters on agriculture, regional policy and structural instruments, and financial and budgetary provisions to be presented by the Commission during the Spanish presidency,

H. whereas the Commission proposes to include the CAP market policy, the rural development policy and the direct payments in the negotiation position of the European Union; whereas the rural development policy has the biggest share and should be adapted to the special needs of the new Member States; whereas the Commission proposes a phasing in model, which provides for direct payments to be introduced in the new Member States equivalent to a level of 25% in 2004, 30% in 2005 and 35% in 2006 of the present system reaching 100% in 2013,

I. whereas the Commission also proposes a phasing in of the structural operations in the new Member States so that they can reach amounts that represent 2.5% of their GDPs allowing an average of € 137 per capita in 2006 compared to € 231 per capita that the Member States receiving financial support through the Cohesion Fund will continue to receive by the same year and which represents 1.6% of their GDP,

J. whereas the Commission proposal for the negotiations foresees under internal policies two new elements apart from the participation of the new Member States in the existing Community programmes: Aid for decommissioning of the nuclear power plants in Bohunice/Slovakia and Ignalina/Lithuania as well as for the setting up of adequate administrative structures and strengthening the administrative capacity to implement the acquis;

K. whereas the Commission is not proposing any adjustment of the ceiling in heading 4 after enlargement,

L. whereas the Commission proposes to increase the ceiling for administrative expenditure in 2004 to 2006 slightly above the indicative figures in the financial framework, and the Secretaries General of the institutions estimate in a report prepared on request of Parliament and Council the figure of € 134 million in 2003 and € 476 million in 2004 as additional costs for the preparation of the accession of new Member States,

M. whereas the own resources to be provided by the new Member States could be estimated to an annual amount between € 5 and 6 billion in 2004 to 2006, which would bring some of the states in a net-contributor position in the first years after accession, if no provisions for budgetary compensations would be foreseen,

N. whereas the financial perspective provides for 21 840 million euro to promote the development of the candidate countries in preparation for accession

1. Underlines that the accession negotiations need to take into account the interests of the current Member States and their regions and the needs of the candidate countries, and stresses that the result of the negotiations must meet the demands for a long-term solution for the good and the stability of the enlarged European Union;

2. Insists that the governments of the current Member States do not jeopardise the enlargement process by adhering to national positions (as they have done on many occasions in the past), but work together to find an agreement on the financial aspects of enlargement;

3. Recalls that the Interinstitutional Agreement of 6 May 1999 provides for a procedure to adjust the financial perspective where the Union is enlarged to include new Member States;

4. Reminds Council, Commission and the governments of the Member States, as well as the governments of the candidate countries that the agreement of Parliament on the financial planning on which the Common Positions are based is an indispensable condition for an understanding between the Member States on the Common Negotiation Positions concerning the three chapters most relevant to the EU budget; therefore, urges Council and Commission to guarantee the participation of Parliament in the accession negotiations insofar as aspects relevant for the future financial framework of the European Union are concerned;

5. States that the figures of the indicative financial framework for enlargement included in the Interinstitutional Agreement of 6 May 1999 for the years 2004 to 2006 should be taken as a framework for the adjustment of the financial perspective to be made when possibly 10 new Member States will join the Union in 2004; however, underlines that the sub-ceilings and the overall ceiling of heading 8 of that financial framework have only indicative character;

6. Stresses the necessity to start the process of reform of major policy areas before enlargement respecting the Agenda 2000, in order to provide clarity to the citizens on the longer term financial consequences of EU enlargement;

7. Supports the proposal of the Commission to give great importance to the instrument of the rural development policy for the integration of the new Member States in the EU

agricultural policy modifying the instrument to adapt it better to the needs of the agricultural sector of these countries; in particular, supports to increase the EU co-financing rate to 80% for the first years of membership, while it later should be adjusted individually in relation to the financing capacities of the new Member States aiming to come to the same level as for the current Member States;

8. Expresses its support for the phasing in-model for the inclusion of the new Member States in the direct aid in the agricultural sector recalling that the direct aid payments are part of the current *acquis* and, therefore, cannot be excluded from the negotiations with the candidate countries; welcomes the aim that the new Member States should reach the level of 100% of direct aid by 2013; points out that this has to be clarified definitely at the time of the adoption of a new financial perspective; continues its support for the comprehensive development of the CAP and calls for a fair, just and sustainable agricultural policy, both for Member States and candidate countries;

9. Welcomes the approach to leave the new Member States in the first years the option to link the direct aid to area per hectare of arable agricultural land, instead of production; considers that future WTO negotiations will influence the future of the CAP, and stresses that the effects of enlargement need to be taken into account by the Commission in the framework of its negotiations in the WTO;

10. Calls on the Commission, within the framework of the necessary reforms, to submit proposals to make direct income payments part of rural development policy after 2006, tying them to environmental, nature and countryside conservation requirements while maintaining international competitiveness and respecting WTO rules;

11. Welcomes the phasing in of structural operations proposed by the Commission but questions if the absorption capacity of the new Member States will be sufficient to reach the level of transfer from the EU budget through structural operations indicated by the Commission;

12. Supports, in principle, the Commission's idea to foresee a significant share of the structural operations for the Cohesion Fund; therefore, this Fund should be defined and managed separately from the Cohesion Fund which is in place for current Member States; underlines that funding from the Cohesion Fund for the new Member States should be replaced by an increase in funding from the Structural Funds in so far as their implementation in the new Member States is improving;

13. Urges the Commission to maintain its efforts to help the candidate countries to improve administrative capacity and to support institution building, and reminds the negotiators that the administrative capacity of the new Member States will need continued improvement after the accession, which requires targeted financing in the framework of structural operations and internal policies; therefore stresses the need for a strategy to improve absorption capacities in candidate countries;

14. Stresses that an immediate start should be made on a complete overhaul of the Structural Fund implementation mechanisms in specific connection with enlargement, so as to enable procedures to be simplified and to be more suitably adapted to local circumstances, and to enable better use to be made of the available appropriations;

15. Draws the Commission's attention to the fact that the take-up rate for SAPARD at 31 December 2001, after two years in operation, amounted to only 6.48 per cent and that the take-up rate for the other pre-accession instruments is also unsatisfactory, leaving

the total amount of unused appropriations as of 15 April 2002 at 6.611 billion euro; calls therefore on the Commission to take measures swiftly to facilitate the prompt payment of pre-accession funds and the take-up of unused appropriations taking into account the protection of the Community's financial interests;

16. Reaffirms its position that the anti-fraud office, OLAF, shall set up branches in all the candidate countries by mid-2002;

17. Welcomes support for the decommissioning of the nuclear power plants in Bohunice/Slovakia and Ignalina/Lithuania; takes the view that payment of the support should be linked to actual decommissioning within the deadline to be agreed (2005 and 2009 respectively) and suggests to reserve additional appropriations if the decommissioning of the Ignalina power plant results in serious deficits in the energy supply and the economic situation in Lithuania;

18. Considers that the accession of the Central and Eastern European countries and of Cyprus and Malta will bring new political tasks to the Union in the field of external actions, and the special relationship with Turkey has to be taken into account; welcomes the intention of the Commission and the Secretary-General of the Council to analyse the fresh challenges and opportunities in foreign policy afforded by enlargement and to submit a report during the second half of 2002; expects to be included in the revision of foreign policy priorities and will consider the financial implications in detail in the light of all the options available under the Interinstitutional Agreement; therefore, insists that additional funding in external actions and new elements of interregional co-operation, if necessary, has to be taken into account resulting in an adjustment of the ceiling of heading 4;

19. Underlines that the increase in the number of new Member States compared to the financial framework creates a more than proportional increase of administrative expenditure because of the influence of certain elements, like the impact of every new Community language on translation and interpretation services, and the need in buildings, which makes it likely that there will be a need to increase the ceiling;

20. Urges the institutions to use all possibilities to prepare for effective operation of the enlarged Union by streamlining and tightening of working processes and structures of competence, and adapting the language regime in the institutions;

21. Points out once again that the political and economic benefits of accession are much more important than the Member States' budget balances with the EU, but considers it unacceptable for the new Member States to become net contributors to the Community budget, at least during the first few years of the integration period;

22. Reiterates that it will not be possible to make an adjusted calculation of the amount of money needed to finance enlargement until the accession negotiations have been concluded;

23. Notes the proposal of the Commission to provide the budgetary compensation through a lump sum on the expenditure side of the budget, which should be temporary and degressive, and is easier to manage than the reduction of the own resources from the new Member States; stresses that the payment of lump sums on the expenditure side reduces significantly the margin for the payments entered in the financial perspective as available for accession, while a reduction on the revenue side would not reduce this margin; therefore, proposes that consideration should be given to entering budgetary

compensation as negative revenue in the EU budget in order to guarantee that enlargement will be a successful process;

24. Points out that, amongst the general benefits associated with enlargement, there may be some undesirable effects and that the EU or Member States may be required to take special remedial action;

25. Instructs its President to forward this resolution to the Council, the Commission, the governments of the Member States and the governments of the candidate countries.

EXPLANATORY STATEMENT

The current situation

1. The road map for the accession negotiations endorsed by the European Council of Nice as a key element of the enlargement strategy provides for the conclusion of accession negotiations with candidate countries in 2002. This means that all remaining chapters which have already been opened with individual candidate countries should be concluded this year. The European Union should define its negotiation positions on three of the last five chapters in the first half of 2002 and open the negotiations with the candidate countries on the basis of these positions. The negotiations on all chapters should then be concluded with the candidate countries which are prepared for accession during the Danish presidency in the second half of 2002. The Commission will present its 2002 reports on the progress towards accession by each of the candidate countries and, on this basis, will make recommendations as to which candidate countries are ready for accession.

2. This timetable seems to be a very ambitious one, in particular inasmuch as the chapters not yet opened are some of the most difficult to resolve, such as regarding the discussion between the current Member States about the Common Negotiation Position, and as regarding the actual negotiations with the candidate countries. Two of these chapters (chapters 30 and 31 'Institutions' and 'Other remaining matters') will be opened only after concluding all other chapters. Three of the five remaining chapters concern mainly financial and budgetary questions:

    - Chapter 7: Agriculture
    - Chapter 21: Regional policy and structural instruments
    - Chapter 29: Financial and budgetary provisions.

3. On 30 January 2002, the Commission presented a Communication on these three issues concentrating on the financial aspects, which need to be tackled in a coherent manner for these three chapters. This approach is more than justified, as agricultural expenditure and structural operations make up about 80% of the EU budget, totalling € 78.1 billion out of the € 98.6 billion of the 2002 budget. The Commission presented in mid-May Draft Common Positions (DCPs) for chapter 21 (Regional policy and structural instruments) for the negotiations with most of the 10 candidate countries envisaging accession in 2004. DCPs for agriculture (chapter 7, except veterinary and phytosanitary matters for which a Common Position already exists) reflecting the EU position on direct aid, market organisations, production quotas etc. are presented for 9 candidate countries. DCPs for chapter 29 (Financial and budgetary provisions) have been presentedfor all 10 candidates. In mid-May, the Council adopted Common Negotiation Positions in the Regional Policy chapter for some of the candidate countries. In this chapter, there seem to be no fundamental problems to find an agreement between the Member States, and the Council is in line with the Commission proposal. In the chapter on financial and budgetary measures, the Council diverts from the proposal of the Commission and adopts only a rather vague negotiation position. Finally, as expected, Member States have difficulties to agree on the chapter on agriculture, due to the different positions concerning direct aid.

4. The Parliament, and namely its Foreign Affairs Committee, has closely followed the negotiations from the beginning and influenced the process. According to Article 49 EU Treaty, the accession of new Member States requires the assent of the European Parliament which decides by an absolute majority of its component members. This provision of the Treaty gives Parliament already a strong position in the framework of the enlargement process. In the area of financial and budgetary questions, the position of Parliament in relation to accession is even stronger. As one of the two arms of the budgetary authority, and as the institution that concludes the decision on the budget of the European Union through the signature of its President, the Parliament decides together with the Council on the financial frame under which the new Member States will be received. The rapporteur would like to remind the other institutions and the governments of the Member States that the financial perspective agreed between Parliament, Council and Commission in the framework of the Interinstitutional Agreement of 6 May 1999, needs to be adjusted "where the Union is enlarged to include new Member States during the period covered by the financial perspective (jointly by) the European Parliament and the Council, acting on a proposal from the Commission and in accordance with the voting rules under the fifth subparagraph of Article 272(9) of EC Treaty ... to take account of the expenditure requirement resulting from this enlargement" (Paragraph 25(1) IIA); i.e. that the adjustment to cater for enlargement requires a qualified majority in Council, and in Parliament a majority of its Members and three-fifths of the votes cast. The rapporteur wants to send a clear signal to Council, Commission and the Member States' governments that any understanding between the Member States leading to an establishment of Common Negotiation Positions concerning the three chapters most relevant to the EU budget would be of no value without the agreement of Parliament on the financial planning on which the Common Positions are based. The same signal should be sent to the negotiators in the accession negotiations between the EU and the candidate countries: an agreement can only be valid if it can be accepted by the two arms of the EU budgetary authority.

The framework

5. Accession negotiations are on their way now with 12 countries in Central and Eastern Europe and the Mediterranean. As the Commission clearly identifies in its document "Making a success of enlargement. Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries" (COM(2001) 700) of November 2001, only 10 candidate countries have prospects of concluding the negotiations in 2002 and acceding to the Union in 2004. The accession of Bulgaria and Romania requires additional efforts from these countries, which can only be effective after 2002. The Commission also states that in November 2001, none of the candidate countries had yet fulfilled all requirements to join the Union, such as the complete adoption of the acquis communautaire or the creation of administrative structures which allow to implement the acquis in a sufficient way.

6. Most chapters with the 10 candidate countries are already closed. A number of chapters remain open (situation at 22 April 2002, not taking into account the situation of Bulgaria and Romania):

- chapter 6 (competition) open with 6 candidate countries
- chapter 8 (fisheries) open with 2 candidate countries
- chapter 9 (transport) open with 2 candidate country
- chapter 10 (taxation) open with 3 candidate countries
- chapter 14 (energy) open with 2 candidate countries
- chapter 19 (telecommunication) open with 1 candidate country
- chapter 20 (culture and audiovisual) open with 1 candidate country
- chapter 22 (environment) open with 1 candidate country
- chapter 24 (justice and home affairs) open with 3 candidate countries
- chapter 25 (customs union) open with 1 candidate countries

The chapters on agriculture, regional policy and financial and budgetary provisions are opened with all candidates, but only the regional policy chapter could already be closed provisionally with Cyprus and the Czech Republic.

7. The European Council in Helsinki in December 1999 had changed the negotiation strategy from the two groups model to the "Regatta Approach". Parliament has demanded this since 1998, so that every candidate country can be judged on its own merits. Already in the first working document on the financial implications of enlargement, your rapporteur illustrated that, for socio-economic and political reasons, it would in reality be hard to split the accession of the candidate countries into different "waves" or single accessions (the "regatta"-model), as such a model might create tensions and socio-political jealousy between the Visegrad countries (Czech Republic, Hungary, Poland and Slovakia) or go against the Baltic solidarity. The economic consequences and legal difficulties of breaking up the Customs Union between the Czech and the Slovak Republic can be easily avoided by the accession of both countries at the same time. In the case of an accession of Poland, the Czech Republic and Hungary, the length of the external borders of the Union depends enormously on whether the Slovak Republic enters at the same time. It was speculated about vetos if Poland (or Cyprus) are not be in the first wave of accession. Finally, compared to Poland, Hungary and the Czech Republic, the financial impact of the accession of the remaining 7 candidate countries that could realistically participate in the "2004 enlargement wave", is significantly smaller.

8. The current debate shows that an accession of 10 new Member States in 2004 seems to be the most realistic scenario. This would also correspond to the wish of the European Parliament that the first new Member States could participate in the EP election in June 2004. Calculations for possible costs of enlargement should therefore start from the assumption of 10 new Member States joining the Union in 2004, as does the present document. An earlier accession of candidate countries is virtually impossible, and the accession of less than 10 candidate countries in 2004 would only give more space to the budget framework, but constitute no problem to the budgetary planning.

9. In his first Working Document of April 2001, the rapporteur stated that "any consideration on the financial implications of enlargement over the next years, any prediction or any scenario proposed, has to take into account a high number of unknown factors." This is still correct. However, while the time and the order in which the candidate countries will accede have since become clearer, some factors are still vague. "The GDP growth of the present Member States (EU-15) as well as those of the candidate countries have to be

estimated. The absorption capacity of the candidate countries, in particular regarding Structural Funds, can only be approximated." Moreover, substantial negotiations are still in their initial phase in the fields of budget, agriculture and structural funds. The inclusion of direct aid in the agricultural package, the moment of full participation in the own resources system, or the modalities of the transfers with respect to the structural funds, are among the crucial questions which have to be resolved over the next months. The rapporteur would like to recall that the Commission had registered over 500 requests from candidate countries for transitional measures mainly in agriculture, but also in other fields.

General remarks on the Commission's approach

10. Your rapporteur wishes to point out a general problem of the Commission's approach: The proposal and the calculation of the Commission start from the idea that the result has to be within the ceiling of heading 8 of the financial framework. However, heading 8 gives only indicative figures, which were set in 1999, assuming the accession of 6 new Member States in 2002. Obviously, this assumption will not be reality. Of course, the rapporteur considers also that the Commission approach is politically justified. On the other hand, the Commission should not have started under the assumption that the ceiling of heading 8 is not changeable. Rather, it should have started from the real needs and capacity of the new Member States to absorb financial transfers from the EU budget.

11. Heading 8 of the financial framework gives figures from 2002 on assuming the accession of 6 new Member States. The assumption of the Commission Communication is now what was already the most likely assumption one year ago: that 10 candidate countries will accede the Union in 2004. Some Member States claim that therefore the maximum additional amount for the financial perspective in 2004 can only be the amount entered in the financial framework for 2002. On the other hand, one could argue that the EU has now available the amount which was included in the financial framework for the 5 years 2002 to 2006 and can distribute it to the remaining 3 years. This question has to be discussed and will be an important point of the negotiation between Member States. However, your rapporteur is of the opinion that the Commission's approach, which is in line with his first Working Document, is the most realistic, given the needs in the future new Member States, which could not be met with the amounts indicated in the financial framework for the 2002 to 2004 period. In particular, one has to take into account that now financial transfers to 10 instead of 6 new Member States have to be organised.

12. The mobilisation of the appropriations necessary for the new Member States from the 2004 budget on, requires a prior adjustment of the financial perspective according to paragraph 25 of the Interinstitutional Agreement. This means that Parliament has to be included in the preparation process, in order to avoid difficulties in a later stage of the accession procedure, as discussed above. The wording of paragraph 25 also underlines the indicative character of heading 8 of the financial framework: *"<u>Without prejudice to the outcome of the accession negotiations</u>, the change in the headings concerned <u>should</u> not exceed the amounts shown in the indicative financial framework <u>based on the assumption of an enlarged Union with six new Member States from 2002</u>..."*. The wording makes it evident that the sub-ceilings and the overall ceiling of heading 8 have no binding character and can be increased if the situation makes it necessary. Accordingly paragraph 25 says:" *The additional requirements will be covered by the available amounts set aside for this*

purpurse in the financial perspectives and, if necessary, by using the additional own resources resulting from the increased Community GNP after enlargement of the Union."

13. There is another interesting aspect concerning the presentation and implementation of the financial framework: The conclusions of the Berlin European Council say in paragraph 12 of the Presidency's conclusions, that it *"confirms the requirement ... that a clear distinction must be made in the presentation and implementation of the financial framework, between expenditure relating to the Union as currently constituted, and that reserved for the future acceding countries, including after enlargement. The new Interinstitutional Agreement should adequately reflect this requirement as follows."* Although the conclusions of the European Council are in no way binding for Parliament, the question needs to be raised how the adjustment of the financial perspective will be presented in the financial framework and be implemented. However, this question is not the issue of the present document.

14. In this context, the rapporteur takes the opportunity to raise another question which needs answering only in the medium term. The financial perspective expires in 2006, when the probably 10 new Member States have been members of the Union for only 2 or 3 years, and the financial transfers are just coming out of the initial phase. Also, negotiations on the new Interinstitutional Agreement may start as early as 2005, just one year after enlargement. Will this be the right moment to discuss a financial framework until 2013? Or could it be an option to prolong by 2 to 3 years the existing Interinstitutional Agreement including the financial perspective, in order to get a better picture of the needs and the implementation in the different headings, also in view of possible further accessions between 2007 and 2013, in particular by Bulgaria and Romania? And would this require a parallel adaptation of the legal frameworks of the Structural Fund and part of the Comman Agricultural Policy?

15. In the following the rapporteur will discuss the different solutions for the various sectors of the Community policy: possible solutions for the financial questions relating to headings 1, 2, 3, 4 and 5 of the financial perspective, but also the question of the own resources and possible compensation payments to the new Member States. The rapporteur will also make some remarks on the question of the adjustment of the financial perspective as far as heading 8 is concerned.

The position of Parliament

16. The rapporteur will base his considerations on the documents discussed in Parliament and on the *opinion on Bulgaria's, Cyprus', Czech Republic's, Estonia's, Hungary's, Latvia's, Lithuania's, Malta's, Poland's, Romania's, Slovakia's and Slovenia's membership application to the European Union and the state of negotiations* adopted by the Committee on Budgets on June 2001, and the Brok report on the enlargement of the European Union, adopted by plenary on 5 September 2001.

17. In particular, in this report the Parliament defined its position on the enlargement process and with only slight modifications included the opinion of the Committee on Budgets:

Considers that enlargement will generate economic and political benefits which will both be greater than the budgetary costs; underlines that accession must not be made dependent on issues which are currently conflictual between Member States; stresses that the policy of economic and social cohesion must be maintained for the whole Union also after enlargement; (para. 14)

Points out that the participation of new Member States in the Union's Common Agricultural Policy and the Structural operations will be phased in during the first years of membership in order to take into account the socio-economic situation, the absorption capacity, the co-finance capabilities and the administrative framework of these new Member States, and in order to take into account the implications for the EU budget; (para. 16)

Stresses that the likely costs for the European Union budget incurred by the accession of Member States until 2006 can be catered for in the framework of the provisions of the existing Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure[1]; suggests that after accession the amounts could be made available through an adjustment of the Financial Perspective for the specific year, within the limit of 1.27% for payment appropriations and of 1.335% for commitment appropriations; recalls that the margin for unforeseen expenditure in payments, which totals 0.15% of the Community's GNP in 2004, could be used also to cover additional financial needs related to enlargement; (para. 17)

Stresses that the costs arising from the accession of new Member States are likely to increase significantly after 2006 and require a serious consideration of the financing of the EU budget and the contribution capacity of the old and the new Member States; however, underlines that it supports the principle to maintain the ceiling for payment appropriations at 1.27% of the Community's GNP up to 2006, which could be used through the EU budget in order to cover the needs of an enlarged Union; (para. 18)

Points out that the upcoming reforms of the Common Agricultural Policy should take into account the financial, social and environmental implications of enlargement on agriculture and vice versa as well as the situation of the agriculture sector in the new Member States; stresses that the reforms should preferably be decided upon before accession taking into account current and future obligations in the framework of the WTO; underlines, in particular, the need to start discussing the possibility to grant the new Member States' farmers direct aid; (para. 19)

Notes that direct payments to agricultural producers are playing an important and controversial role in the accession negotiations; stresses the need to bring direct payments within the sphere of the 'second pillar' of the CAP by compulsorily tying premiums to social and ecological criteria (cross-compliance and modulation) in order to make them less controversial and guarantee that direct payments in an enlarged Union will be uniformly determined; (para. 20)

Notes that the main budgetary problems regarding enlargement after 2006 have to do with categories 1 (CAP) and 2 (structural funds); underlines at the same time that both parts of the EU budgetary authority must also take the necessary precautions to detect and prevent problems in other budget categories, not least category 3 (internal policies) and category 5 (administration), where it is already possible to predict new financial needs in the context of preparations for enlargement; (para. 22)

Asks the Commission to provide regularly updated figures on the financial costs of enlargement until 2006 as the accession negotiations proceed; (para 23)

Agriculture

1 OJ C 172, 18.6.1999, p. 1.

18. The Commission document includes three elements in its calculation for the financing of the agricultural sector:

- The CAP market policy is the least cost intensive sector in the agricultural package. It is part of the acquis communautaire and not questioned by Member States or by the candidate countries. Althought details concerning the individual market organisations may cause problems, the overall impact of this part will not be a big problem for the negotiations.
- The rural development policy is a good instrument to be adapted to the special needs of the new Member States. The Commission has emphasised this element and it constitutes the biggest share of the financial transfer in the agricultural sector. The Commission's calculation for these two elements has very similar results to the figures published in the 2001 Working Document.
- The direct payments will be much more problematic for the negotiation process. The Commission proposes a phasing in model, which provides for direct payments to be introduced in the new Member States equivalent to a level of 25% in 2004, 30% in 2005 and 35% in 2006 of the present system. In 2004, no expenditure is estimated, as direct aid is only reimbursed to the Member States out of the budget of the following year. The level of direct aid shall reach 100% of the direct payments in 2013, according to the rules which are in force in this year - which will not necessarily be the same rules as now. The appropriations foreseen in the Commission document are significantly lower than in the 2001 working document, which needs some clarification. In particular, the raising of the amount in the following years is less significant as assumed by the rapporteur in 2001.

Table 1 - Agriculture

	2004	2005	2006	total
CAP market policy	516	749	734	1.999
Rural development	1.532	1.674	1.781	4.987
sub-total COM	2.048	2.423	2.515	6.986
WD 2001	*1.960*	*2.105*	*2.248*	*6.313*
Direct aid COM		1.173	1.418	2.591
WD 2001(adjusted)		*1.607*	*3.216*	*4.823*
total agriculture COM	2.048	3.596	3.933	9.577
total agriculture WD 2001	*1.960*	*3.712*	*5.464*	*11.136*

NB. Commission calculated on 1999 prices, WD 2001 on 2002 prices

19. In general, the rapporteur considers that the proposal of the Commission is not far from the position expressed already by Parliament.

- Concerning the CAP market policy, the financial impact has to result from an exact application of the rules existing for each market organisation, i.e. the consequent application of the acquis communautaire.

- Concerning the rural development policy, the rapporteur supports the approach that this instrument is particularly suited for the integration of the candidate countries in the EU agricultural policy. The Commission foresees a number of adjustments:
  - Increase EU co-financing rate to 80%,
  - Manage the policy according to SAPARD rules, including differentiated appropriations,
  - Add specific measures, which are not covered by the existing measures under the EAGFF 'Guarantee', in order to react on the specific problems.
- These adjustments in the rural development policy seem to be useful for the new Member States, in particular, the management according to the SAPARD rules and the inclusion of specific measures, can improve the implementation of this policy in the first years after accession.
- The question of an increased co-financing rate can be useful to tackle the problem that the new Member States may have difficulties to raise the necessary amounts for the co-financing under the existing Community rules. This question may even be more delicate in the framework of the structural operations. However, the rapporteur would like already to discuss the question if this increased co-financing rate can be maintained after 2006, or if the co-financing rate should be reduced after 2006, or if the cofinancing rate should depend from the capacities of the new Member States and should be adjusted individually.
- The main debate will be about the direct aid both between Member States and between the EU and the candidate countries. At the Berlin Summit in 1999, the Member States excluded direct aid from the financial indications in the financial framework. In the last weeks, some Member States already announced that they refuse the inclusion of direct aid in the negotiation package with the candidate countries. Your rapporteur would like to stress that the direct aid is part of the current acquis communautaire. This makes it inevitable to include this part of the EU agricultural policy in the negotiations with the candidate countries. Your rapporteur is also of the opinion that these negotiations have to lead to an inclusion in the medium term of the new Member States in the direct aid payments. A discrimination in this respect will not be accepted by the candidate countries. In some of the candidate countries, public opinion is already increasingly critical of EU accession, and especially in Poland, the exclusion from direct aid could have an important negative effect. The rapporteur had already proposed a phasing in of direct aid to the new Member States. The Commission takes up this approach in a realistic way and remarks that the level of direct aid could change in the course of the CAP reform, especially after 2006. The rapporteur would discuss an approach that stabilises the total expenditure for direct aid at the current level, reducing the share of the current Member States and increasing the share of the new Member States between 2004 and 2013.
- The rapporteur would like to bring to the Members' attention that the Commission has gone beyond the indicative ceiling entered in heading 8 for the agricultural expenditure (commitments) for the years 2005 and 2006. This is due to the inclusion of the direct aid and can, therefore, be justified.
- The rapporteur also welcomes the approach to leave the new Member States in the first years the option to link the direct aid to area per hectar of agricultural land, instead of production. This will facilitate the implementation of the direct aid, but can

also give indications for reform elements in this sector. In this context, it must also be considered that future WTO negotiations, in particular concerning "Blue Box" and "Green Box", will influence the future of the CAP.

Structural actions

20. The Commission document proposes a phasing-in approach, which was already favoured by Parliament. The figures are, in particular in the first year after accession, higher than estimated in the 2001 working document, which shows a more optimistic approach of the Commission of the absorption capacity of the candidate countries. The figures proposed should allow an average aid of €137 per capita to be reached in the new Member States in 2006. This can be compared to € 126 initially foreseen in the Agenda 2000, and to € 231 per capita that the "cohesion Member States" will continue to receive by the same year. The Commission's approach confirms the decisions taken in Berlin whereby the Community funds would not exceed 4% of the GDP of each Member State, a figure never reached within the EU. On average, the new Member States should thus receive amounts that represent 2.5% of their GDPs. In order to reach a higher absorption capacity, the Commission proposes to introduce the Cohesion fund in the new Member States and to constitute one third of the envelope for the structural operations for the Cohesion fund, which is by far higher than in the current four "cohesion Member States" (18%). The implementation of the Cohesion fund is easier than in the case of the Structural Funds (bigger projects in the transport and environment sector) and the maximum co-financing rate through the EU budget is higher (85% instead of 80%). The Commission announces that priority will be given to the delivery system of structural funds and institution building to address the shortages of administrative capacity in the development of public administration.

21. For the northern part of Cyprus € 206 million in total should be earmarked for the 2004 to 2006-period in the headings 1, 2 and 3. € 144 million should come under heading 2. These appropriations should be linked to the process of negotiation and the political settlement of the conflict between the southern and the northern parts of Cyprus.

- The rapporteur welcomes the phasing in approach selected by the Commission for the Structural Funds.
- The figures for the first years of the structural operations seem optimistic as regards the absorption capacity of the new Member States, but the significant share of the cohesion fund in the structural operations could be the key to enable the necessary absorption capacity. However, your rapporteur would like to recall that the cohesion fund was created to support the participation of four countries in the Monetary Union. The use of the Cohesion Fund to improve the implementation of structural operations in the new Member States to such an extent is, therefore, at least to be considered as a new approach. The question can be raised, whether the share of the Cohesion Fund in structural operations should be reduced degressively in so far as the implementation of the Structural Funds in the new Member States is improving.
- Implicitely, the Commission admits that implementation problems in the new Member States are to be expected due to difficulties with the administrative capacity of these countries. This makes the optimistic approach for the absorption capacity questionable on the one hand. On the other, the rapporteur can only support the priority on

institution building which is laid down for the structural funds, but also in the framework of the internal policies.
- The rapporteur welcomes the political signal which has been set by the earmarking of an amount for the northern part of Cyprus. However, it should be kept in mind that - for the time being - this amount can only be a "political figure" without detailed knowledge of the actual needs.

Internal policies

22. The figures of the Commission for the years 2004 to 2006 are based on the financial framework for 2002 to 2004 adjusted to the accession of 10 instead of 6 candidate countries.

23. Apart from the participation of the new Member States in the existing Community programmes, the Commission foresees the inclusion of two new elements, which are of special interest for some of the candidate countries.
    - PHARE pre-accession aid is provided for the decommissioning of the nuclear power plants in Bohunice/Slovakia and Ignalina/Lithuania. It is proposed to continue this aid in 2004 through 2006 with amounts for the 3 years-period of € 60 million for Bohunice and € 245 million for Ignalina.
    - Pre-accession aid, mainly under PHARE, is provided for the setting up of adequate administrative structures and strengthening the administrative capacity to implement the acquis. Not all the measures currently supported could be taken over by the Structural Funds after accession. Therefore, the Commission proposes to spent between 2004 and 2006 € 380 million for these institution building projects under heading 3.

24. Your rapporteur is sceptical of the approach of the Commission to start its proposal from the financial framework - even going back to the figures for 2002 to 2004, and not from an estimation of the needs. The rapporteur would have preferred at least the 2004 to 2006 figures as a starting point of the Commission's reflections, while the special measures for the decommissioning of nuclear power plants and institution building could be considered as additional amounts which could not be anticipated when adopting the financial framework in 1999. In this context, it could be questioned whether the appropriations for the two items will be sufficient. The conclusion of the institution building process may take longer than estimated by the Commission. The energy situation in Lithuania after the decommissioning of the Ignalina power plant may require additional EU support to compensate for the resulting deficits in the energy supply and the economic situation of Lithuania.

25. The estimated needs for institution building under heading 3, in addition to the measures to be financed under the Structural Funds, show clearly the need to improve the administrative capacity of some of the candidate countries. The implications of these problems for the preparedness for the EU accesssion of some of the candidate countries have to be taken seriously.

26. The Commission suggests that the special financing for decommissioning and institution building can be treated under the chapter "other matters", which will be negotiated as last

step of the accession negotiations together with the chapter "Institutions". The rapporteur is of the opinion that these two elements cannot be seperated from the debate on the other financial issues discussed in the framework on the chapters on agriculture, structural funds and budgetary issues, as they will add up to € 325 million in 2004 - with a share of about 28% of the estimated costs for the new Member States under heading 3 in 2004, though declining in the following years.

External policies

27. In line with the financial framework of the IIA , the Commission has not foreseen any adjustment of the ceiling in heading 4.

28. The rapporteur considers that the accession of the Central and Eastern European countries and of Cyprus and Malta will bring new political tasks to the Union in the field of external actions, and the special relationship with Turkey has to be taken into account. The European Union will have new common borders with Ukraine, Belarus, Croatia, Serbia and Moldavia. The geographical and political situation of Cyprus needs special attention. The geographical situation of the area of Kaliningrad will lead to a situation where a piece of Russia is surrounded by EU-territory. The Union, too, will have to take into account the political obligations of the New Member States in its foreign policy. All this will result in the need for additional funding in external actions and new elements of interregional co-operation, given that the ceiling under heading 4 of the financial perspective has already proved to be insufficient.

Administrative costs

29. In the financial framework the ceiling for commitment appropriations for the administrative expenditure was established at € 450 million annually. The Commission proposes to increase the amounts to € 503 million in 2004, € 558 million in 2005 and € 612 million in 2006 taking into account that 10 candidate countries are likely to acced instead of 6 countries. The Commission states that the increase in the number of new Member States "creates a more than proportional increae of expenditure because of the influence of certain elements, like the impact of every new Community language on translation and interpretation services.

30. Your rapporteur stressed that the needs for the EU administration due to enlargement will already increase significantly before the actual moment of the accession as the administrative preparations have to be concluded before the candidate countries become Member States. The Secretaries General of the institutions estimate in a report prepared on request of Parliament and Council the figure of € 134 million in 2003 and € 476 million in 2004 as additional costs for the preparation of the accession of new Member States. In the light of these figures, the proposal of the Commission seems reasonable.

31. The most significant cost increases will arise from the additional needs for translation, interpretation, new posts in other sectors and infrastructure. The additional costs of €476 million (under the condition that enlargement will take place at 1 January 2004) will be mainly due to the linguistic sector (about36%) and other additional staff (25%). The costs

for new buildings may take up about 19% while the increased costs directly needed for the new Members of the Institutions will make a share of about 6%.

32. According to the estimations collected in the report of the Secretaries General (for 2004), the Parliament has the highest needs in additional staff (plus 1240, of which 500 could possibly be compensated with retirement, natural departures and early retirement), followed by the Commission (700 new posts), the Court of Justice (608 new posts) and the Council (about 500 new posts). New posts will total about 3100. The bulk of these posts will be in the linguistic sector (about 65% or 2000 posts).

33. The increase of the number of Members of the Institutions, such as 106 new Members of Parliament, 20 new Members of the Court of Justice, 10 new Members of the Court of Auditors, 95 new Members in the Economic and Social Committee as well as in the Committee of the Regions, will not need high increases through direct costs, but of course a lot of costs are linked to the increase in Members.

34. Significant costs will arise for new needs in buildings for all institutions (about € 90 million in 2004). Particular costs will arise for some of the institutions, such as the Parliament through the high number of new Members and the need to open offices in the new Member States. The Council estimates additional costs for representatives to official meetings to € 10 million annually. The Commission has to assure the translation of all Community law in the new Community languages and some of the European Schools have to include new language sections (about € 9.5 million).

35. The estimations include a lot of different elements. Therefore, the ceiling in heading 5 should provide a certain margin, which would not be guaranteed through an adjustment of only € 476 million for 2004 and increasing figures for the following years. Even the figures of the Commission, starting with € 503 million in 2004 seem rather tight given that already in 2003 no margin is likely to exist under this heading.

36. The rapporteur personally has certain doubts that the institutions have already used all possibilities to prepare for enlargement by streamlining and tightening of working processes and structures of competence. Similar doubts can be stressed concerning the considerations for the future of the language regime in the institutions. However, for the time being other solutions than those already discussed seem to find no majority.

Own resources and budgetary compensation

37. The Commission assumes that the new Member States should contribute in fully to the own resources of the European Union from the first year of membership. On basis of GDP figures provided by the Commission and an estimated increase of annually 4%, 1.1% of the GDP of 10 candidate countries would sum up to a total of € 5.2 billion in 2004 and € 5.7 billion in 2006. 1.1% of the Community's GDP corresponds roughly to the ceilings established in the financial framework EU-21 for the years 2004 to 2006. Therefore, these figures can give an indication for the own resources to be contributed by the new Member States.

Own resources estimation* with 1.1% of GDP, in million €

	2002	2003	2004	2005	2006
Czech Republic			867	902	938
Estonia			86	89	93
Hungary			884	920	956
Latvia			118	123	128
Lithuania			172	179	186
Poland			2360	2455	2553
Slovakia			297	309	322
Slovenia			268	279	290
8 CEEC candidate countries			*5 053*	*5 255*	*5 465*
Cyprus			135	140	146
Malta			51	53	55
10 candidate countries			*5 238*	*5 448*	*5 666*
Ceiling financial framework EU-21 for payments available for accession	*4.140*	*6.710*	*8.890*	*11.440*	*14.220*
Commitment appropriations proposed by the Commission			*10.794*	*13.400*	*15.966*

* Own calculation based on Commission GDP figures until 2003
GDP increase of 4% annually 2004-06

38. Of course, these figures are only indications, but could give a picture of the capacity of the new Member States to contribute to the revenue side of the EU budget. Compared to the ceiling of the financial framework EU-21 adopted in the IIA in 1999, the difference is relatively small in 2004 (about € 3.6 billion), which could bring some of the new Member States in a net-contributor position. In 2005 and 2006 the difference would already increase to about € 6 and 8.5 billion respectively, which would make transitional measures necessary to avoid that new Member States become net contributors in the first years after accession.

39. The Commission assumes that a transitional arrangement for budgetary compensations will be necessary for all, or for a number of new Member States. The candidate countries insist that they do not come in the position of net contributors to the EU budget. This could result from the fact that the new Member States will have to contribute fully to the own resources from the beginning, while the payments from the EU budget will not reach the normal level so quickly. The commitments for differentiated appropriations will exceed the payments in the first years. Regarding non-differentiated appropriations, the reimbursements from the EU budget for the Member States' payments of direct aid to farmers are only made in the subsequent year, which means that there will be no reimbursement in 2004. The final calculation of the transitional arrangements can only be done after the conclusion of the debate on the chapters with financial impact, i.e. in the very end of the accession negotiations. The Commission estimates that the margin which will be left under the ceiling of the financial perspective available for accession should be sufficient to cover the costs of the budgetary compensation.

40. The rapporteur agrees to the idea that for a transitional period, the new Member States may receive budgetary compensations. The Commission's approach to provide the budgetary compensation through a lump sum on the expenditure side of the budget, which should be temporary and degressive, is certainly easier to manage and more transparent than the reduction of the own resources from the new Member States. But the payment of lump sums on the expenditure side reduces - perhaps significantly - the margin for the payments entered in the financial perspective as available for accession, while a reduction on the revenue side would have no direct effect on the expenditure side and would not reduce the margin available for payments. If Parliament accepts the Commission's approach, the Member States will have to agree to an adjustment of the financial perspective that guarantees sufficient margins for the expenditure necessary to cover the needs of the new Member States.

Final remarks

41. The preparation of the accession negotiations needs to take into account both the differences of interest between current Member States, and the needs and positions of the candidate countries. Certainly, the figures which will be agreed in the accession negotiations and the ceilings which will be the result of the adjustment of the financial perspective will be a question of political agreement between the different partners in the different negotiation processes. However, perhaps the Commission has tried too hard to anticipate the results of the negotiation process and did not stay close enough to the real needs of the candidate countries on the one hand, and to their capacity to absorp transfers from the EU budget on the other.

42. The rapporteur also wishes to send a signal to the governments of the current Member States that they cannot risk to jeopardise the enlargement process by their difficulties in finding an agreement on the financial aspects of enlargement. He reminds the Council that the European Parliament is an active player in this process and that Parliament's position should be taken into account when negotiating on governmental level. The Parliament needs to agree to the adjustment of the financial perspective. This should not be considered as a formality.

43. In this context, the Member States have to remember that some aspects will be essential for one or several candidate countries, e.g. the inclusion of direct aid or the fact that no new Member State will be net contributor in the first years of enlargement. Particularly regarding these two elements the Commission has presented reasonable proposals.

44. One serious point of criticism aims at the approach of the Commission to restrict its Communication to the period 2004 to 2006. Although the current financial perspective expires in 2006 and, therefore, the adjustment in 2004 will only cover a 3 year-period, the long-term effects of the decisions which are made now should be considered. Based on the Commission communication and a figure of more than € 16 billion for the new Member States in 2006 (including an estimation of the budgetary compensation), the budgetary costs of enlargement could reach up to € 39 billion in 2013 under the following conditions:
    - no reform of the CAP, constant costs of market organisations, increase in rural development policy,

- participation of the new Member States in direct aid to 100% of the level of the current Member States in 2013,
- accession of Bulgaria and Romania in 2008,
- structural operations reach 4% of the new Member States GDP in 2007,
- constant costs for internal policy and administration,
- discontinuation of budget compensation in 2007[1].

45. This calculation gives a maximalist scenario, in particular regarding the costs in the agricultural sector and the absorption of structural operations in the new Member States. While the scenario gives an indication of possible costs, a more realistic scenario would have to take into account details for the possible development of the Community policies as well as the additional own resources which will be provided by the new Member States. The conditions mentioned are the result of political decisions, but it would have been preferrable if the Commission had provided the Member States, Council and Parliament with a long term perspective. In this context, the rapporteur asks the committee to discuss, if the next financial perspective necessarily has to cover the period of 2007 to 2013, or if other possibilities may be more useful, including the option of prolonging by a short period the current IIA and financial perspective. However, this question cannot be answered in the context of the present document.

[1] Cf. Wolfgang QUAISSER, Kosten der Erweiterung. Neue Vorschläge der Europäischen Kommission und ihre Implikationen für die nächste Finanzperiode, Kurzanalysen des Osteuropa-Instituts München, Nr.1, 20. Februar 2002, München

24 April 2002

OPINION of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy

for the Committee on Budgets

on the financial impact of the enlargement of the European Union
(2002/2045(INI))

Draftsman: Giorgos Katiforis

PROCEDURE

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy appointed Giorgos Katiforis draftsman at its meeting of 24 January 2002.

The committee considered the draft opinion at its meetings of 26 March and 23 April 2002.

At the latter meeting it adopted the following conclusions unanimously.

The following were present for the vote: Elmar Brok, chairman; Baroness Nicholson of Winterbourne, Geoffrey Van Orden and Christos Zacharakis, vice-chairmen; Ole Andreasen, John Walls Cushnahan, Véronique De Keyser, Rosa M. Díez González, Andrew Nicholas Duff (for Paavo Väyrynen), James E.M. Elles (for Johan Van Hecke), Giovanni Claudio Fava (for Catherine Lalumière), Glyn Ford, Michael Gahler, Jas Gawronski, Vasco Graça Moura (for Philippe Morillon), Klaus Hänsch, Ulpu Iivari (for Giorgos Katiforis), Joost Lagendijk, Armin Laschet, Cecilia Malmström, Miguel Angel Martínez Martínez (for Raimon Obiols i Germà), Emmanouil Mastorakis (for Alexandros Baltas, pursuant to Rule 153(2)), Emilio Menéndez del Valle, Pasqualina Napoletano, Arie M. Oostlander, Elena Ornella Paciotti (for Ioannis Souladakis, pursuant to Rule 153(2)), Doris Pack (for Ursula Stenzel), Hans-Gert Poettering (for Alfred Gomolka), Jacques F. Poos, Jannis Sakellariou, José Ignacio Salafranca Sánchez-Neyra, Amalia Sartori, Elisabeth Schroedter, David Sumberg, Ilkka Suominen, Hannes Swoboda, Charles Tannock, Bob van den Bos, Demetrio Volcic, Karl von Wogau, Jan Marinus Wiersma, Matti Wuori.

SHORT JUSTIFICATION

Formulating a comprehensive EU position on the financial aspects of the coming enlargement has now become urgent. The membership negotiations with the ten best prepared candidate countries are very advanced. Moreover, the Road Map for the negotiations foresees that common positions on the remaining chapters are defined during the first half of 2002.

The Commission communication on a Common Financial Framework 2004-2006 for the Accession Negotiations[1] provides an excellent basis for the discussion on this position. Overall, it is well-considered, balanced and realistic. The proposals do not introduce any secondary category EU membership, neither do they represent a 'one size fits all' thinking which could produce very questionable effects in the new Member States. These states are in some regards clearly different from the old ones and this fact should be properly taken account of.

As regards agriculture, inclusion of the new Member States in the direct payments system means that the principle that all Member States have equal status is respected. As Commissioner Verheugen has pointed out, this inclusion should not preclude that changes to this system are made in the context of the reform of the Common Agricultural Policy.

At the same time, the Commission proposes that direct payments to the farmers of the new Member States only gradually reach the level that applies in the current EU countries. This has provoked strong reactions in the candidate countries. It should, however, be recognised that if the EU levels were to be applied immediately, this would probably drastically reduce the incentive for carrying out the necessary restructuring of the agricultural sector. The sudden and artifical dramatic rise in the profitability of agricultural production that would appear could also have distortive effects of a wider scale on the economies of the new Member States.

The decision on the direct payments level clearly influences the net contribution from the EU budget that the new Member States will receive. This contribution should, however, be adjusted by means of budgetary compensation, not through the choice of direct payment levels which for other reasons may not be the best.

Most of the candidate countries are currently undergoing a process of radical structural change and for all of them, the EU's structural policies are clearly very important. Very substantial aid is necessary both to strengthen economic and social cohesion within the enlarged EU and to counteract, hopefully also reverse, tendencies within the individual candidate countries towards growing disparities between different regions and population groups. At the same time, it is obvious that the efforts to ensure cohesion among the current Member States must continue.

The Commission considers that problems with the absorption capacity will remain important in the new Member States. It proposes a radically increased emphasis on the Cohesion Fund as a primary response to that problem. These countries' huge investment needs both in environmental protection (as required by the *acquis*) and in infrastructure are probably an even stronger argument for increasing the contributions from the Cohesion Fund. Support should, however, only be given to well prepared projects. Furthermore, infrastructure projects should only be approved after a careful environmental impact assessment has proven their soundness.

[1] SEC(2002) 102, 30.1 2002.

The co-financing requirement in the Cohesion Fund can be as low as 15 per cent. Mindful of the tight budgetary constraints of many candidate countries, the Commission proposes that the co-financing requirement in the Agricultural Guidance and Guarantee Fund is brought down to 20 per cent. There may, however, be a case for further reviewing all co-financing requirements.

In the area of <u>internal policies</u>, the Commission proposes a transition facility for institution building. This would ensure that activities that cannot be financed through existing channels applicable to EU Member States could still continue and that relevant Phare actions can be phased out smoothly. The wisdom of this is obvious and the Commission's proposal should be strongly supported.

A specific envelope with € 206 million for the northern part of Cyprus, occupied by the Turkish army since 1974, for the years 2004-2006 is also proposed. This should increase the prospects for its successful integration into the EU, *if a political settlement can be achieved.* This offer should therefore be made.

In order to support Lithuania in connection with the decommissioning of the Ignalina nuclear power plant, the Commssion proposes that the EU contributes € 245 million during the period 2004 to 2006. It also states that support should continue for the next decades. Closing this Chornobyl-type, albeit modernised, power plant is important for the safety of the Lithuanians as well as that of other Europeans. Also this proposal therefore deserves support.

The Commission communication makes clear that the financial framework proposed, in combination with the contributions to the EU budget that the new Member States will have to pay, may lead to a surprising result: that they will receive less as new EU members than they did before accession. This is a very clear illustration that what is being considered is far from an overly generous treatment of the mainly rather poor countries who will take their rightful seats beside the current members of the Union.

Ensuring that the EU will not give less to these countries as an effect of their accession is *an absolute necessity*. A failure would also damage the image of the EU at a time when the candidate countries prepare for the referenda on their accessions.

CONCLUSIONS

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy calls on the Committee on Budgets, as the committee responsible, to incorporate the following points in its motion for a resolution:

1. Recalls that the enlargement process is a historic necessity and a unique possibility for the EU and the candidate countries to promote their values and interests; points out that the economic aspect of this process is not limited to the financial flows directly related to the EU budget, but also covers such areas as trade and investment; notes that the EU already benefits greatly from the increase in trade and from investment opportunities in the candidate countries;

2. Underlines that all provisions to be agreed between the EU and the candidate countries must be based on the principle that all EU Member States have equal rights and obligations; notes that various transitional arrangements are necessary, *inter alia* in order to take proper account of characteristics of the economies of candidate countries, their investment requirements related to the *acquis* and other needs, their capacity to absorb aid and the constraints affecting their state budgets;

3. Supports the Commission's proposed common financial framework 2004-2006 for the accession negotiations;

4. Considers that the proposed arrangements for direct aid to farmers are in line with the above principles; notes that these arrangements are based on the CAP in its present form, but should not preclude a reform of this policy - so as to favour integrated rural development - to be implemented as soon as possible;

5. Considers that the difference in direct payments to farmers is justified by

   a) the need not to remove the incentives for the reform of agricultural policy in the countries concerned;

   b) the additional financial measures in the sphere of the structural funds;

6. Observes that the enlarged EU will be characterised by great disparities in economic development and by very considerable challenges in the social field; recognises that this will increase further the importance of the policies for economic and social cohesion;

7. Finds an increased emphasis on the Cohesion Fund to be well-motivated, in the light of the candidate countries' investment needs as well as their absorption capacity; stresses, however, that the quantity of projects must not be allowed to jeopardise their quality and that these environmental and infrastructure projects must always be subjected to the EU regional policy's programming, monitoring and partnership rules, and a careful strategic environmental impact assessment;

8. Agrees with the Commission that co-financing difficulties of candidate countries make adjustments to existing provisions appropriate; considers that it is essential to avoid such difficulties preventing the countries most in need of EU support from being able to receive it; recommends that an assessment of the possible problems is promptly carried out, and

that urgent measures are taken which enhance the absorption capacity;

9. Supports the Commission's proposals for specific aid for the northern part of Cyprus in the context of a political settlement, for the decommissioning of nuclear power plants and for institution building;

10. Believes it to be an absolute necessity that there should be respect for the principle that no country should receive a smaller net contribution from the EU in the first year after accession than it did previously, and that the new Member States should be able to profit from discounts on their payments to the EU budget as long as they do not fully benefit from EU-policies;

11. Recalls that the increase in the Union's expenditure which will result from enlargement is necessary in order to achieve an acceptable economic and social cohesion between the present and the new Member States, and therefore considers that various types of support for the new Member States might need in some cases to be given at the expense of support for other parts of the Union;

19 April 2002

OPINION of the Committee on Agriculture and Rural Development

for the Committee on Budgets

on the financial impact of the enlargement of the European Union
(2002/2045(INI))

Draftsman: Friedrich-Wilhelm Graefe zu Baringdorf

PROCEDURE

The Committee on Agriculture and Rural Development appointed Friedrich-Wilhelm Graefe zu Baringdorf draftsman at its meeting of 19 February 2002.

The committee considered the draft opinion at its meeting of 15 and 17 April 2002.

At the last meeting it adopted the following conclusions by 35 votes to 1, with 1 abstention.

The following were present for the vote: Joseph Daul, chairman; Friedrich-Wilhelm Graefe zu Baringdorf, vice-chairman and draftsman; Albert Jan Maat, vice-chairman; María Rodríguez Ramos, vice-chairman; Gordon J. Adam, Danielle Auroi, Alexandros Baltas (for Vincenzo Lavarra), Carlos Bautista Ojeda, Sergio Berlato, Niels Busk, Michl Ebner, Francesco Fiori, Jean-Claude Fruteau, Georges Garot, Lutz Goepel, Willi Görlach, Elisabeth Jeggle, Salvador Jové Peres, Hedwig Keppelhoff-Wiechert, Heinz Kindermann, Christa Klaß (for Arlindo Cunha), Astrid Lulling (for Christos Folias), Jean-Claude Martinez, Xaver Mayer, Jan Mulder (for Giovanni Procacci), Karl Erik Olsson, Neil Parish, Ioannis Patakis (for Dimitrios Koulourianos), Mikko Pesälä, Christa Prets (for María Izquierdo Rojo), Encarnación Redondo Jiménez, Agnes Schierhuber, Dominique F.C. Souchet, Robert William Sturdy and Eurig Wyn (for Giorgio Celli).

SHORT JUSTIFICATION

The Commission's proposals on the financial framework conditions for enlargement are in line with the Berlin framework but provide for higher agricultural expenditure in 2005 and 2006 than was intended for the EU-21 scenario (Annex II of the Financial Perspective). The Commission's approach is in principle a sound basis for determining the EU's position in the negotiations with the applicant countries.

In the case of CAP market policy, the Commission's calculations are based on the full application of the acquis for 10 new Member States immediately upon accession. In making these calculations, the Commission says that it is using updated forecasts for the agricultural market. They assume EU common negotiating positions involving management instruments based on reference periods normally between 1995 and 1999. The corresponding adjusted amounts are equal to €516 million in 2004, €749 million in 2005 and €734 million in 2006.

The key problem in the negotiations on the agricultural chapter is that of direct payments. In the Berlin framework, the assumptions underlying the calculations for 2002-2006 did not cater for direct payments in favour of the farmers in the new Member States. On the other hand, the applicant countries are demanding full application of the acquis immediately after accession, i.e. including unrestricted direct payments. In the Commission's view, however, immediate full integration into the system of direct payments would not give the right incentives to farmers in the new Member States to engage in, or continue, the necessary restructuring. This view was repeatedly challenged by the agriculture ministers of the applicant countries at a hearing organised by the EP Committee on Agriculture on 20 February 2002.

In the case of direct payments, the Commission proposes an approach in two steps leading to the full application of Community law in the area of direct payments:

- In a first step, direct payments would be introduced in the new Member States equivalent to a level of 25% in 2004, 30% in 2005 and 35% in 2006 of the present system. As reimbursements from the EU budget for Member States' expenditure on direct aids in a given year is only made out of the budget for the following year, there is no additional expenditure estimated for 2004. The amounts are €1173 million for 2005 and €1418 million for 2006.

As regards the practical application, there will be the option of granting support in a simplified form based on an area payment per hectare of agricultural land to familiarise farmers with the implementation mechanisms of the acquis.

- In a second step after 2006, direct payments will be organised in such a way as to ensure that in 2013 the new Member States reach the support level then applicable. The annual increases in direct payments will be expressed in percentage steps instead of absolute amounts. This transitional arrangement would not prejudge any changes in the Community regime.

With regard to rural development policy for the programming period 2004-2006, the Commission proposes:

- Raising the EU co-funding rate to 80% for the rural development measures financed by the EAGGF Guarantee Section. This is currently the maximum level for structural programmes in Objective 1 regions located in the Member States benefiting from the Cohesion Fund.

- Implementation will be simplified by applying the SAPARD rules (including differentiated appropriations). Commitment appropriations for 2004 and 2005 have been adjusted accordingly.

- Further specific measures will be taken to develop rural areas under the EAGGF Guarantee Section in order to cater for the specific situations in the applicant countries, in particular restructuring of semi-subsistence farms.

The Commission is earmarking the following amounts for rural development policy: € 1 532 million for 2004, € 1 674 million for 2005 and € 1781 million for 2006.

CONCLUSIONS

The Committee on Agriculture and Rural Development calls on the Committee on Budgets, as the committee responsible, to incorporate the following points in its motion for a resolution:

1. Welcomes in principle the Commission's proposals on the common financial framework 2004-2006 for agriculture; this will allow direct payments to farmers in the applicant countries to be phased in up until 2013; points out, however, that the introduction of direct payments in the new Member States must in no circumstances impede the restructuring of support in the common agricultural policy after 2006;

2. Considers that the full application of the system of direct payments as from the date of accession would result in unjustifiably high financial subsidies for one occupational group and thus create considerable income differentials in the population and social disparities in rural areas; fears that full direct payments would be at the expense of the necessary strategic resources to restructure and develop rural areas;

3. Points out that, in accordance with the Community acquis, the application of direct payments must in principle be linked to modulation and cross-compliance, even if this is not an option for the time being under the simplified approach;

4. Welcomes the Commission's intention to do more to promote rural development in the new Member States; this is a crucial means of safeguarding the jobs of those employed in agriculture and improving the environmental situation; supports in particular the proposal for special aid for stabilising or restructuring semi-subsistence farms and the proposed annual lump sum payments, which will serve as a social safety net;

5. Regards investment in rural development as the most effective way to help new

member states restructure their agricultural sectors, improve productivity and undertake diversification of the rural economy, and notes the arguments provided in the Commission's Agricultural Issues paper about the damaging effects of high direct payments in the new member states;

6. Draws attention to the need for differentiation of lump sum payments to semi-subsistence farms for stabilisation or restructuring; therefore calls for an annual lump sum payment of € 750 to semi-subsistence farms which are not able to submit a business development plan and a lump sum payment of € 1500 tied to presentation of a business development plan;

7. Calls on the Commission, within the framework of the necessary reforms, to submit proposals to make direct income payments part of rural development policy after 2006, tying them to employment imperatives and to environmental, nature and countryside conservation requirements, for instance under the birds, habitats and nitrates directives;

8. Points out in this context that the Commission's proposals are inconsistent with the indicative financial framework for the Financial Perspective for EU-21 (paragraph 25, in conjunction with Annex II of the FP) as far as the commitment appropriations for the agriculture sector in the years 2005 and 2006 are concerned, but at the same time the overall ceiling for Category 8 must be complied with;

9. Draws attention to the fact that in some instances inadequate absorption capacity is a problem that has yet to be resolved and must not be allowed to result in the Community reducing its commitment to the enlargement process; therefore urges the Commission to submit a proposal to the Council and Parliament as soon as possible on how to ensure that pre-accession aid is actually spent;

10. Considers that a bottom-up approach to support for rural areas is a significant means of strengthening business and public-interest initiatives and calls on the Commission to submit proposals to allow resources to be spent in the candidate countries within the framework of Sapard and with the assistance of the bodies set up to implement Sapard, with a view to the preparation and implementation of rural development measures modelled on the Leader + programme;

11. Notes that the funds allocated so far under the Sapard programme are totally inadequate and therefore asks that in the period 2004 -2006 any savings should be made available in the second pillar to States that have then joined the EU;

12. Calls for close consultation of the candidate countries and the European Parliament in connection with the enlargement process; points out that at the same time as the enlargement process an agreement should be reached on reform of the CAP and the structural policy to give European taxpayers a clear picture of the financial consequences of enlargement of the Union.

21 May 2002

OPINION of the Committee on Regional Policy, Transport and Tourism

for the Committee on Budgets

on the financial impact of enlargement of the European Union
(2002/2045(INI))

Draftsman: Adriana Poli Bortone

PROCEDURE

The Committee on Regional Policy, Transport and Tourism appointed Adriana Poli Bortone draftsman at its meeting of 21 March 2002.

It considered the draft opinion at its meetings of 18 April and 21 May 2002.

At the latter meeting it adopted the following conclusions unanimously.

The following were present for the vote: Luciano Caveri, chairman; Rijk van Dam and Helmuth Markov, vice-chairmen; Rolf Berend, Philip Charles Bradbourn, Garrelt Duin, Giovanni Claudio Fava, Markus Ferber (for Renate Sommer), Jacqueline Foster, Mathieu J.H. Grosch, Catherine Guy-Quint (for Michel J.M. Dary), Konstantinos Hatzidakis, Ewa Hedkvist Petersen, Georg Jarzembowski, Karsten Knolle (for Reinhard Rack), Dieter-Lebrecht Koch, Giorgio Lisi, Sérgio Marques, Emmanouil Mastorakis, Arlene McCarthy (for John Hume), Erik Meijer, Camilo Nogueira Román, Wilhelm Ernst Piecyk, Giovanni Pittella (for Juan de Dios Izquierdo Collado), Samuli Pohjamo, José Javier Pomés Ruiz, Alonso José Puerta, Carlos Ripoll i Martínez Bedoya, Isidoro Sánchez García, Ingo Schmitt, Brian Simpson, Dirk Sterckx, Ulrich Stockmann, Margie Sudre, Joaquim Vairinhos, Daniel Varela Suanzes-Carpegna (for Felipe Camisón Asensio), Herman Vermeer, Mark Francis Watts and Brigitte Wenzel-Perillo (for Luigi Cocilovo).

SHORT JUSTIFICATION

Negotiation chapter 21, 'Regional policy and coordination of structural instruments', concerns, in addition to the adoption on a very clear basis of the *acquis communautaire*, budgetary matters. Given that the financial resources available for European regional policy account for around a third of the EU budget, the outcome of negotiations in this area will clearly have a decisive impact on the costs of enlargement.

In preparation for the negotiations due to take place this year, the Commission has therefore presented a communication setting out proposals for the financing of structural policies within the framework of the financial perspective 2000-2006 (SEC(2002)0102). These proposals are currently being discussed by the Member States with a view to ultimately being incorporated into the European Union's negotiating position, which has yet to be decided.

The European Parliament, which forms part of the budgetary authority, has an important contribution to make to the discussion on the necessary adjustment of the financial perspective with a view to enlargement, in accordance with the interinstitutional agreement of 6 March 1999. That means that Parliament must be fully involved at the stage of drawing up of the negotiating position as well as subsequent negotiations.

For the three relevant years, 2004 to 2006, what the Commission is proposing in the area of regional policy is as follows:

- a phasing-in approach during the first three years
- cohesion fund expenditure to be increased to a third of the total allocation (compared with 18% for the existing beneficiary countries)
- applying the 4% clause, aid per capita to reach EUR 137 in 2006 (compared with EUR 231 for the existing cohesion fund beneficiary countries and EUR 126 in the original Agenda 2000)
- for the northern part of Cyprus, a total amount of EUR 206 million to be made available, of which 70% for heading 2 (structural measures).

The approach being adopted is very similar to that decided upon in the original Agenda 2000, although rather more optimistic with regard to absorption capacity:

	2004	2005	2006
Commission proposal for the heading 'Structural measures' for the new Member States in EUR million	7067	8150	10350
Per capita assistance in EUR for Laeken CCEE 10	94.0	108.4	137.6

The proposed increased use of the Cohesion Fund has two very positive effects: firstly, this places a lighter burden on the budgets of the new Member States, as a higher rate of EU co-financing is permitted under the Cohesion Fund; secondly, implementation should, given the approach to and scale of projects, be far more straightforward than in the case of Structural Funds programmes. Moreover, in view of the emphasis on the environment and transport, this approach should support the new Member States in making the necessary investment in infrastructure with a view to adopting the *acquis communautaire*.

Your rapporteur therefore welcomes in principle the approach proposed by the Commission. Parliament has already given its approval to phasing-in under heading 8, 'enlargement', in connection with Agenda 2000. However, as regards the increased use of the Cohesion Fund, the question remains to be answered whether this is to be treated as a temporary measure or whether a shift in emphasis in connection with European cohesion policy is desirable in the longer term. The Commission communication does not really answer this question.

Essentially, strengthening the Cohesion Fund would represent a return to 'hard measures', with a small number of major infrastructure projects being co-financed by the EU. That would undoubtedly speed up the implementation of ambitious objectives in connection with transport and environmental policy. However, this approach also involves the risk of a loss of European added value, as it is not inconceivable that it could ultimately lead to a renationalising of European regional policy. Your rapporteur therefore proposes a review of this shift in emphasis for the next programming period 2006-2013, with the possibility of extending up to 2013, but would advise against using this approach beyond 2013.

The big question mark in relation to enlargement in the area of regional policy concerns the absorption capacity of the new Member States. According to the Commission, its approach would mean stepping up aid per capita per annum from EUR 30 for the CCEE 10 under the current pre-accession strategy to EUR 137, representing an increase by a factor of 4.5. There are already problems today with the implementation of the ISPA, SAPARD and PHARE instruments, under which financing has increased threefold since 2000.

CONCLUSIONS

The Committee on Regional Policy, Transport and Tourism calls on the Committee on Budgets, as the committee responsible, to incorporate the following points in its motion for a resolution:

1. Underlines the importance of enlargement as the foundation for ***an increasingly extensive and fervent espousal of*** common political, economic, social and cultural values, ***inspired above all by the principles of peace, democracy and solidarity and designed to ensure that the peoples of the Union enjoy the highest possible level of prosperity***; notes that, in order to achieve this goal, the principle of solidarity and economic and social cohesion must be an essential element of policy action;

2. Observes that the forthcoming enlargement and the resulting significant widening of regional and territorial disparities poses a particular challenge for economic and social cohesion policy as one of the pillars of the European project, and that greater efforts will be needed in this area than ever before;

3. Welcomes the phasing-in approach for the new Member States already proposed by the Commission in Agenda 2000 and now again being adopted for the period between

2004 and 2006 in the area of the Structural and Cohesion Funds, in line with the financial perspective for the period up to 2006; ***stresses that in the context of structural activities subsidies must be stepped up gradually to enable account to be taken of the new Member States' socio-economic situation, their capacity for the take-up of funds, their capacity for joint funding and the effects on the EU budget;***

4. Underlines that, after the first wave of accessions, pre-accession funds should be re-distributed among the remaining candidate countries, whereas the share of these funds allocated to social and economic cohesion as well as rural development measures should be increased;

5. ***Considers*** that increased use of the Cohesion Fund ***should help to speed up the implementation of*** major infrastructure projects essential to the proper functioning of the transport network ***and environmental protection*** within an enlarged Europe;

6. Stresses the importance of absorption capacity as ultimately the decisive criterion for the successful adoption of the Community *acquis* in the area of structural policy; encourages the applicant countries to set about preparations for implementing investment in infrastructure in the areas of transport and the environment as quickly as possible and calls on them to improve their own administrative capacities to reduce the risks of low uptake of those resources, in order to ensure a smooth phasing-in process in the area of the structural and cohesion funds; ***takes the view that it is essential that the candidate countries concerned adopt the necessary political and legal instruments to achieve a regionalisation which meets the requirements arising in particular from the management of Structural Funds;***

7. Insists on the need to embark forthwith on a reform of mechanisms for implementing the Structural Funds to tackle the problem of absorption capacity by simplifying procedures and adjusting them better to the local situation on the ground;

8. Welcomes the ***Commission's proposals for granting special aid to northern Cyprus as part of a policy to achieve settlement***.