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Committee on Budgets

Adjustment of Financial Perspective in view of enlargement

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on the Commission's proposal COM(2003) 0070

Committee on Budgets

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Commission's Proposal COM (2003)0070

Contents

1. At its meeting of 11 February, the Commission adopted the proposal for a decision of the European Parliament and the Council on the Adjustment of the Financial Perspective for enlargement, according to point 25 of the IIA of 6 May 1999.
2. The document contains two parts:
 - the adjustment of the financial framework of EU 15 for the period 2004-2006 to the situation of an enlarged Union EU 25;
 - the technical adjustment of the FP to the evolution of prices and GNI (gross national income).
 - Heading 1 (1a and 1b), 2, 3 and 5 ceilings of the EU 15, are raised by the amounts decided in Copenhagen;
 - Heading 4 and 6 ceilings are unchanged;
 - Heading 7 ceiling is also unchanged but covers pre-accession instruments (Phare, Sapard and Ispa) for Bulgaria, Romania and Turkey which are respectively increased by 20%, 30% and 40% in accordance with the roadmaps adopted for these countries by the Copenhagen European Council. Heading 7 will also finance pre-accession appropriations for support expenditure including salaries for outside personnel at delegations in the ten acceding countries and the pre-accession programme concerning Turkey;
 - A new heading 8 "compensation" is created to cover two instruments: "temporary budgetary compensation" and "special lump-sum cash-flow facility" in favour of the new acceding countries;
 - Cyprus: in the case of political settlement allowing unification of the island, provisions are made for supplementary amounts to be made available (273 Mio over the period) under headings 1, 2 and 3.

Comments

3. At the informal dialogue in Athens (20 February), EP's delegation deplored the fact that the Commission only formalised its proposal on the conclusions of the Copenhagen European Council with a totally restrictive interpretation of article 25 of the IIA. EP's delegation stressed that the Copenhagen figures would be assessed by the Parliament through an internal consultation procedure before it can either agree or propose modifications.
4. The delegation pointed out that more than 80 % of heading 3 is made of co-decisions whose financial programmes are agreed by the Legislative Authority. A modification of the financial reference without a common decision of the legislative Authority will imply the absence of legal basis for the amount exceeding the envelope. Therefore, it should be examined whether the legislative co-decision procedures should be revised on the basis of article 33 of the IIA which foresees that [...] *the budgetary authority and the Commission [...] undertake not to depart from this amount unless new, objective, long term circumstances arise* to agree each individual amount.

5. This exercise is indispensable before establishing the definitive ceiling of heading 3. For this reason, the committee on budgets has requested the opinions of the specialised committees. Should the decision to include annex XV into the Accession Treaty be maintained and even the financial perspectives adjusted the need for evaluation remains fundamental.
6. The decision taken by the European Council in Copenhagen concerning heading 7 and reflected in the Commission proposal, is a direct consequence of the accession of 10 countries to the Union.
7. The Commission's proposal is to maintain the ceiling unchanged "without prejudice to future developments which could concern pre-accession expenditure". This means that heading 7 is supposed to cover needs for all current candidate countries: Bulgaria, Romania and Turkey, and pre-accession appropriations for support expenditure for the acceding countries. As a consequence, the switch of Turkey from heading 4 to heading 7, leaves a margin of about 159 Mio under heading 4 which ceiling remains unchanged.

Heading 3 - Internal Policies

8. The first part of this note explains how the Copenhagen figures and the Commission's proposals (which are totally identical) have been calculated. The second part proposes some options in order to evaluate what could be the needs for 2004-2006 including that for co-decisions. Finally, tables in annex provide some technical support including statistics.

Commission/ Council Method

9. The figures for Heading 3 are composed of two types of expenditure:
 - existing policies which correspond to the marginal effect of enlargement on the current heading 3
 - transitional measures (Nuclear Safety, Institution building and Schengen) whose global cost represents 75% of the total amount although they result from negotiations between the Member States in Copenhagen without any consultation of EP.

Heading 3 - Commission/Copenhagen Figures

COPENHAGEN	2004	2005	2006
Total Heading 3	1457	1428	1372
Existing policies	846	881	916
Transitional Nuclear safety measure	125	125	125
Transitional Institution building measures	200	120	60
Transitional Schengen measures	286	302	271

10. The increase of 22.8% for heading 3 which results from the adjustment of the Financial Perspective takes into account the additional cost for transitional measures. The real increase of existing policies resulting from the Commission/Copenhagen figure is only 13% (see below).
11. Although the new amount of heading 3 resulting from Copenhagen and taken over by the Commission refers to "a maximum enlargement related increase", it is not an increase limited to the 10 new countries. It corresponds to the increase of heading 3 for 25 Member States.

Internal Policies - Increase with/without transitional measures

Commitment appropriations	2004				2005				2006			
	Copen hague (1)	AII (2)	Diff. 1≠2 (3)	Diff. 3≠2 %	Copen hague (1)	AII (2)	Diff. 1≠2 (3)	Diff. 3≠2 %	Copen hague (1)	AII (2)	Diff. 1≠2 (3)	Diff. 3≠2 %
3. Total H.3 Internal Policies	7.827	6.370	1.457	22,87%	7.908	6.480	1.428	22,04%	7.972	6.600	1.372	20,79%
a) Existing policies			846	13,28 %			881	13,60%			916	13,88%
b) Transitional Nuclear safety measure			125				125				125	
c) Transitional Institution building measures			200				120				60	
d) Transitional Schengen measures			286				302				271	

12. As mentioned in WD N°2¹, the Commission has made a purely statistical exercise (by taking the figures of annex II of the IIA: heading 8) based on the initial hypothesis of the accession of 6 candidate countries in 2002. It has applied to these figures two parameters: GDP (5% of EU 15) and population (20% of EU 15) on an equal weighting, represented by 10 candidate countries without any serious evaluation of the needs (see below).

¹ PE 325 494 para 32

Heading 3 - Keys for Distribution (1999 prices)

Candidate countries	Population (millions)	% Cand. 10	GDP	% Cand. 10	Total
CY	663	0,88%	9,7	2,57%	1,73%
CZ	10295	13,71%	57,3	15,20%	14,45%
EE	1450	1,93%	5,5	1,46%	1,69%
HU	10114	13,47%	53,0	14,06%	13,76%
PL	38666	51,49%	187,7	49,79%	50,64%
SI	1982	2,64%	20,3	5,38%	4,01%
Cand. 6	63170	84,13%	333,5	88,46%	86,29%
LT	3702	4,93%	7,7	2,04%	3,49%
LV	2449	3,26%	11,6	3,08%	3,17%
SK	5391	7,18%	20,6	5,46%	6,32%
MT	378	0,50%	3,6	0,95%	0,73%
Cand. 4	11920	15,87%	43,5	11,54%	13,71%
Cand. 10	75090	100,00%	377,0	100,00%	100,00%
Candidate countries	Key for Cand. 6	Key ⁽¹⁾ for Cand. 10	2004 ⁽²⁾	2005 ⁽²⁾	2006 ⁽²⁾
			(2002)	(2003)	(2004)
in mio €					
CY	1,98%	1,73%	14	15	16
CZ	16,74%	14,45%	122	127	132
EE	1,97%	1,69%	14	15	16
HU	15,95%	13,76%	116	121	126
PL	58,75%	50,64%	429	447	464
SI	4,61%	4,01%	34	35	36
Cand. 6	100,00%	86,29%	730	760	790
LT		3,49%	30	31	32
LV		3,17%	27	28	29
SK		6,32%	53	56	58
MT		0,73%	6	6	7
Cand. 4		13,71%	116	121	126
Cand. 10		100,00%	846	881	916

Possible options for EP

13. At the meeting of 11 March with the rapporteurs of the specialised committees, it was decided that following the institutional problem created by the introduction in the Accession Treaty of annex XV and maximum annual appropriations agreed in

Copenhagen for each of the categories of the financial perspective, EP could anticipate its calendar in exchange of increased figures for heading 3.

14. It was decided that in parallel to the evaluation to be made by the specialised committees, EP could present a global position to Council in view of the triologue of 27 March. An increase of 20% above the Copenhagen figures (approximately 200 Mio per year) was agreed. This should not stop the assessment exercise which becomes even more urgent.
In the draft report to be adopted by EP and sent to Council on the basis of article 96 of the Rules of Procedure, EP asks for an amount of 600 million over the three years.

Why does EP request 200 Mio € ?

15. The Commission has increased the existing policies by 13.8 %. EP while accepting the top down approach considers that an increase between 16 and 17 % is necessary to better correspond to the increase of the Population criteria (+ 20 %). In fact most of the programs of heading 3 are related more to the population than to the GNP.

Codecisions

16. The assessment of the specialised committees will continue to provide a useful indication to confirm the needs and in particular their impact on the different policies. EP also strongly insists on the fact that multiannual envelopes of co-decisions are revised. This is justified from a legal point of view (article 33 of the IIA contains provisions to adjust the reference amounts in case of *new, objective, long-term circumstances arise*), from a budgetary point of view to replace the contribution of Phare to the Community programmes and also from a political point of view to give political visibility to enlargement.
17. By imposing a top down approach, Council not only decided unilaterally but doing so, bypassed both the prerogatives of the Budgetary and Legislative Authorities. In their letter to President Cox, the three vice-presidents to the conciliation committees underline the "procedural contradiction which exists between the unilateral setting of appropriations for internal policies and the results of a number of conciliation procedures concluded during this legislature". Moreover, the legislative acts of Socrates II, Youth and Public Health programmes contain a commitment that Parliament and Council will be invited to review the financing of these specific programmes under heading 3 on the basis of an appropriate Commission proposal.
18. In the ongoing discussions, EP is entitled to remind Council with the need to take full account of these various legal provisions and ask the Commission to supplement its proposal for adjustment based on article 25 of the IIA by presenting without delay proposals regarding the modification of the financial framework for each individual codecision programme.

Agencies

19. In last January, a letter had been sent to all agencies asking them to make for the end of May their own assessment of the needs linked to enlargement. Most of agencies are

financed under heading 3 and over the past years, the increase of their budgets aimed to cover specific needs linked to enlargement. Four¹ out of the thirteen agencies have already sent detailed information.

20. Although they are not multiannual programmes strict sensu, the agencies represent a significant multiannual expenditure with minimum annual cost to be taken into consideration from the operational and administrative point of view. They are in charge of implementing Community programmes and the global cost (including staff) they represent is determined by the tasks they get from the Commission and from the Member States.

Pilot Projects and Preparatory actions.

21. The enlargement should provide the opportunity to maintain the existing possibilities which have been utilised by EP to experiment new actions and to develop new programmes. In the context of an enlarged Union, the rapporteurs consider that the ceilings set up in article 37 of the IIA (32 Mio € for Pilot Projects and 75 Mio € for Preparatory Actions) should be raised proportionally to cover the needs of 10 new countries. At least, EP should look at preserving the margins left for these initiatives eventually by asking to revise article 37 of the IIA.

Annual budget and multiannual framework

22. Committees should be aware that the current process of adjustment of the ceiling of heading 3 consists in establishing a financial framework and not an annual budget. The aim to increase the margin of heading 3 is to cover the needs for an enlarged Union composed of 25 Member States and which cost is obviously higher than for 15 Member States. The same applies for future legislation.
23. The APS for 2004 indicates specific sub-ceilings for the 10 new countries which is in contradiction with the principle of equality and non discrimination stressed by EP's recommendation. Such presentation should not be maintained once the ceilings are adjusted.
The APS also indicates that the PDB for 2004 would only leave a margin of 49 million under heading 3. Such a tight margin will not even allow EP to finance new priorities or to use the margin foreseen for pilot projects and preparatory actions.

Conclusions

24. Independently from the negotiations conducted at institutional and political level, the rapporteurs confirm the necessity for the specialised committees to contribute to EP's own evaluation of the needs required for the enlarged Union.
25. The APS demonstrates clearly that the current financial framework leaves almost no room for manoeuvre for the existing policies and therefore a revision is essential even if important margins are left below the ceiling but this can only be evaluated after the assessment and revision of the codecisions.

¹ Cedefop, European Training Foundation, Eurojust, European Monitoring Centre on Racism and Xenophobia.

Heading 7 : Pre-Accession

26. Since the beginning of the adjustment process (in WD No 1 and at the informal dialogue), Cobu has pointed out its intention to modify the definition of heading 7 Paragraph 6 of the resolution to be adopted on 27 March by the plenary, on the basis of article 96 of the Rules of procedure, asks the following :
- b. that a modification of the title of heading 7 "Pre-accession Aid" is made, including reference to enhanced cooperation with countries in the neighbourhood.*
27. EP's request for a new definition of Heading 7 is justified by political and budgetary reasons:
- the political will to widen the scope of EU's neighbourhood in the future. Even if the conclusions of Copenhagen clearly state that Turkey should be included under heading 7, the opening of negotiations with Turkey will only be decided end of 2004, while for Bulgaria and Romania a "roadmap" already exists. Moreover, new countries which currently receive EU funding from heading 4, like for example, Croatia or other countries from the Balkans, may apply for accession in the coming years;
 - the availability of a significant margin (about 1,5 billion per year) left under heading 7
28. In the current budgetary and political context, EP consider that the new definition of heading 7 should not be restricted to three countries which accession process is initiated but should also include other forms of enhanced cooperation ("privileged partnerships agreements ") with potential candidate countries. Indirect effect would be to increase the margin of heading 4 to finance new developments like for example in CFSP matters.

Conclusion

29. In accordance with EP (Brok and Wynn) resolution, the rapporteurs consider that the title of heading 7 should be modified on the basis of the Recommendation : " Support for candidate countries and enhanced cooperation with countries in the neighbourhood".