REPORT

on the communication from the Commission to the Council and the European Parliament on the establishment of a new financial perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98) and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - proposals for renewal (COM(98)0165 - C4-0305/98)

Part A - Motion for a resolution

Committee on Budgets

Rapporteur: Mr Joan Colom I Naval

Draftsmen (*)

- Mr Claude Desama, on behalf of the Committee on Research, Technological Development and Energy
- Mr Reinhard Rack, on behalf of the Committee on Regional Policy

(*) HUGHES procedure
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* Hughes procedure

By letter of 5 May 1998 the Commission forwarded to the European Parliament a working document on the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure (Draft).

At the sitting of 15 June 1998 the President of Parliament announced that he had referred the Commission communication and report to the Committee on Budgets as the committee responsible and the Committee on Agriculture and Rural Development, the Committee on Economic and Monetary Affairs and Industrial Policy, the Committee on Research, Technological Development and Energy, the Committee on External Economic Relations, the Committee on Employment and Social Affairs, the Committee on Regional Policy, the Committee on Transport and Tourism (on 17 July 1998), the Committee on the Environment, Public Health and Consumer Protection, the Committee on Culture, Youth, Education and the Media, the Committee on Development and Cooperation (on 14 December 1998), the Committee on Civil Liberties and Internal Affairs (on 17 July 1998), the Committee on Institutional Affairs, the Committee on Budgetary Control and the Committee on Fisheries for their opinions.

At the sitting of 19 June 1998 the President announced that the report was to be drawn up, in accordance with the Hughes procedure, by the Committee on Budgets in collaboration with the Committee on Agriculture and Rural Development, the Committee on Research, Technological Development and Energy and the Committee on Regional Policy.

The Committee on Budgets considered the Commission documents and the draft report at its meetings of 24 June, 20 July and 8 December 1998 and 19 January, 9 February, 17 February, 18 March, 30 March, 13 April and 21 April 1999.

At the last meeting it adopted the motion for a resolution by 16 votes to 2, with 1 abstention.

The following took part in the vote: Samland, chairman; Tillich, vice-chairman; Bösch, Bourlanges, Dankert, Dührkop, Elles, Fabra Vallés, Fabre-Aubrespy, Garriga Polledo, Haug, Kellett-Bowman (for Bardong), Mulder (for Brinkhorst), Müller, Rübig (for Böge), Sandberg-Fries, Viola (for Di Prima), Virrankoski and Wynn.

The explanatory statement will be published separately (Part B).

The opinions of the Committee on Economic and Monetary Affairs and Industrial Policy, the Committee on Research, Technological Development and Energy, the Committee on External Economic Relations, the Committee on Employment and Social Affairs, the Committee on Regional Policy, the Committee on Transport and Tourism, the Committee on Culture, Youth, Education and
the Media, the Committee on Development and Cooperation, the Committee on Civil Liberties and Internal Affairs, the Committee on Budgetary Control and the Committee on Fisheries will be published separately (Part C).

Although it had been consulted under the Hughes procedure, on 30 March 1999 the Committee on Agriculture and Rural Development decided not to deliver an opinion. The Committee on the Environment, Public Health and Consumer Protection and the Committee on Institutional Affairs decided not to deliver opinions.

The report was tabled on 22 April 1999.

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

MOTION FOR A RESOLUTION

Resolution on the communication from the Commission to the Council and the European Parliament on the establishment of a new financial perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98) and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - proposals for renewal (COM(98)0165 - C4-0305/98)

The European Parliament

- having regard to the communication from the Commission to the Council and the European Parliament on the establishment of a new financial perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98) and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - proposals for renewal (COM(98)0165 - C4-0305/98),

- having regard to the Commission working document on the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure (Draft) (SEC(98)0698 - C4-0272/98),

- having regard to its resolution of 4 December 1997 on Agenda 2000: the 2000-2006 financial framework for the Union and the future financing system(1),

- having regard to its common position expressed by the European Council at its meeting in Berlin on 24-25 March 1999,

- having regard to its resolution of 14 April 1999 on the results of the extraordinary European Council in Berlin on 24/25 March 1999(2),

- having regard to the report of the Committee on Budgets and the opinions of the Committee on Economic and Monetary Affairs and Industrial Policy, the Committee on Research, Technological Development and Energy, the Committee on External Economic Relations, the Committee on Employment and Social Affairs, the Committee on Regional Policy, the Committee on Transport and Tourism, the Committee on Culture, Youth, Education and the Media, the Committee on Development and Cooperation, the Committee on Civil Liberties and Internal Affairs, the Committee on Budgetary Control and the Committee on Fisheries (A4-0230/99),

A. whereas an agreement between the two arms of the budgetary authority is required if the financial framework is to be renewed,

B. whereas the establishment of the financial perspective constitutes only a reference framework, and not a framework for the adoption of the annual budgets during the period in

(2) Minutes of the sitting of 14 April 1999, Item 23.
question, and whereas the Council has twice rejected the incorporation of the principle of financial planning when the Maastricht and Amsterdam Treaties were drafted,

C. whereas, in overall terms, the experience gained with the financial perspective over the period 1988-1999 has been favourable, since it has cleared the way, inter alia, for:

(a) non-conflictual budgetary procedures;
(b) increases in non-compulsory expenditure (NCE) well above the statistical rate of increase (maximum rate of increase - MRI) for NCE;
(c) the adoption of stringent budgets well below the own-resources ceiling, totalling more than ECU 110 billion over the period as a whole,

D. whereas 1988 and 1993 demonstrated the value of having a financial framework for the annual budgetary procedure,

1. Notes that a political agreement has been reached within the Council on the principles to govern:

(a) the reform of the CAP;
(b) fresh legislation on the Structural Funds and the Cohesion Fund;
(c) the pre-accession financial instruments;

2. Points out that the agreement reached in the legislative sphere is consistent with the ceilings for headings 1, 2 and 7 of the financial perspective, on which it delivered a [favourable/unfavourable] opinion in its resolutions of 6 May 1999;

3. Points out that, in its resolution of 4 December 1997, it laid down a number of conditions, in particular the incorporation of a flexibility instrument into the new financial perspective, and that an agreement of principle was reached with the Budget Council in a joint declaration of 8 December 1998;

4. Regrets the fact that the Council Presidency has not yet been able to give expression, in the conclusions of the European Council, to the outcome of the negotiations between the delegations from Parliament, the Commission and the Council;

5. Points out that the financial perspective should create scope for the development of European policies, whilst reflecting the Council’s wish for a rigorous approach so that the objective of enlargement can be pursued over the next seven years;

6. Stresses that, given the length of the programming period, it is essential to establish a flexibility instrument which can be employed should the ceilings for the various headings prove inadequate;

7. Points out that the financial perspective has hitherto formed part of an overall interinstitutional agreement which has improved the budgetary procedure and that that agreement can be renewed only in a climate of mutual trust among the institutions;
8. Takes the view that the conditions governing the extension of the 1999 financial perspective, as referred to in Article 25 of the Agreement of 29 October 1993, have not been met;

As regards the financial perspective

Heading 1

9. Welcomes the fact that the Council has taken up its proposal to establish the ceiling for heading 1 at a level below the agricultural guideline; confirms its position that structural measures and accompanying measures constitute non-compulsory expenditure;

Heading 2

10. Welcomes the fact that the Council has endorsed Parliament’s standpoint by confirming that the appropriations earmarked for the cohesion policy constitute an expenditure target;

Heading 3

11. Reiterates its support for the amount proposed by the Commission and confirms that the ceiling for this heading should not only cover legislative decisions which have already been adopted, but also clear the way for the development of the other internal policies;

12. Rejects the Council’s proposal for heading 3, since it would lead to a 40% cutback in policies outside the multiannual programmes;

Heading 4

13. Reiterates its support for the amount proposed by the Commission and takes the view that the ceiling for this heading should make it possible to fund the transfer of the humanitarian aid reserve (EUR 146 m at 1999 prices) to that heading, without cutting funding for the other external measures;

14. Rejects the European Council’s common position on heading 4, which could lead to dangerous and unjustified cutbacks in external measures; points out that needs under this heading are very often determined by Council decisions and that the Union’s strengthened role following the entry into force of the Amsterdam Treaty could give rise to additional requirements, provided that the amounts were available for the CFSP, emergencies and the poorest developing countries;

15. Regrets the fact that the European Council has again failed to incorporate the European Development Fund into the Community budget, which, on grounds of transparency and oversight, appears ever more urgently needed;

Heading 5

16. Reiterates its support for the amount proposed by the Commission, which is intended to ensure that the institutions can operate normally; confirms that the ceiling for this heading should prevent a freezing of the institutions’ establishment plans; reiterates that the more
effective operation of the institutions will entail restructuring measures and, possibly, very
limited growth over the next few years;

17. Takes the view that the new ceiling for heading 5 must take account of officials’ pension
requirements and the cost of adopting the Statute for Members, which will give rise to a
transfer of expenditure from national budgets to the European budget;

Heading 6

18. Would feel able to endorse the Council’s approach only if the reduction in the emergency aid
reserve were to be matched by a transfer of the same amount to heading 4, as proposed by
the Commission;

19. Notes, further, that the justification for the reduction in the monetary reserve for agriculture
is weakened by the reduction in the ceiling for heading 1;

Heading 7

20. Welcomes the fact that the Council has agreed to establish a separate heading for pre-
accession measures, but takes the view, in the light of the major uncertainties surrounding
the enlargement process, that the ceiling for this heading might prove inadequate when set
against the needs of the applicant countries;

Table B

21. Notes that, in a table B dealing with a hypothetical Europe of 21, annexed to the IIA and
separate from the financial perspective, the Council proposes the creation of a heading 8 to
ringfence appropriations not used in connection with enlargement; shares the Council’s view
that it is useful to have an indicative table, without, however, ruling out from the start any
move to use the appropriations, even though the date of and the terms governing the
enlargement and macroeconomic trends are uncertain;

The flexibility instrument

22. Welcomes the fact that the Council has accepted some parts of the proposed procedure for
employing the flexibility instrument; takes the view, however, that the proposed amount -
EUR 200 m per year - does not tally with the intended purpose of the flexibility instrument,
which is proportional to the degree of rigour incorporated into the financial perspective;

The principles governing the future IIA

23. Reiterates that the new Interinstitutional Agreement should consolidate the progress made
towards improving the budgetary procedure and, in particular, establish formal agreement
on the following points:

(a) the classification as NCE of the structural and accompanying measures and all the
pre-accession expenditure;
(b) the procedure for employing the flexibility instrument, provided that the amount allocated to it is appropriate;

c (c) a new conciliation procedure for the whole of the budget which forestalls classification disputes and which clears the way, ultimately, for a revision of the budgetary procedure;

(d) a clause stipulating that the financial perspective must automatically be revised when each enlargement takes place;

(e) the removal, in the table setting out the financial perspective, of all references to binding sub-ceilings;

(f) the need for a system permitting the transfer of appropriations from a budget heading to the reserve in the event of unsatisfactory implementation of a programme;

24. Notes that this resolution incorporates the substance of the committees’ opinions;

25. Calls on the Council and Commission, on the basis of these considerations, to explore every avenue with a view to agreeing on new ceilings for the various headings and to incorporate the principles outlined above into the Interinstitutional Agreement:

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26. Instructs its President to forward this resolution to the Council, the Commission and the other institutions.
REPORT

on the communication from the Commission to the Council and the European Parliament on the establishment of a new financial perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98) and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - proposals for renewal (COM(98)0165 - C4-0305/98)

Part B - Explanatory statement

Committee on Budgets

Rapporteur: Mr Joan Colom i Naval
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Introduction

1. The explanatory statement of a parliamentary report must generally justify the positions which the rapporteur has proposed the committee and ultimately Parliament should adopt.

2. Your rapporteur therefore owes you an explanation regarding the specific nature of this report:

   (a) it creates a 'soft law', the initiative for which came from the political agreement, reached by Parliament and the Council on an equal footing, with the involvement of the Commission, which will in principle determine the rules and conduct relating to budgetary matters over the next seven years;

   (b) although the legislation introduced by the Interinstitutional Agreement complies with the Treaty, in particular the new Article 272 of the TEU, it nevertheless amounts to an interpretation of it which may pave the way for a new procedure;

   (c) preparations for the report got under way on 30 October 1993, i.e. the day after the previous Interinstitutional Agreement entered into force;

   (d) the report lays down a new seven-year financial framework, going up to 2006;

   (e) it opens up a new phase of the accession negotiations, in that it defines the target financial framework of reference for the negotiations on the future enlargement of the EU;

   (f) it testifies to the conflict/cooperation which exists between the two arms of the budgetary authority and the new institutional balance which is emerging.

3. The financial perspective annexed to the agreement will run for seven years, thereby involving the next Parliament and the next Commission, and indeed the following Parliament and Commission for a part of their respective terms of office. This length of time and the fact that the report is being adopted by Parliament the day before its term of office actually ends has prompted some questions, inter alia in the Committee on Budgets. There are some who say that it should have been up to the new institutions to decide on the financial framework on the basis of the programme of work and the new majorities. In the end, however, it was felt that any delay in deciding on the new agreement could lead to serious difficulties.

4. Your rapporteur believes very strongly that the conclusion of this report at the end of the parliamentary term does not infringe any democratic principle, for two reasons:

   (a) the 2000-2006 Interinstitutional Agreement is based on the experience acquired by the three institutions during the European Parliament's fourth parliamentary term, and it is therefore right and proper that this Parliament should assume full political responsibility for it;

   (b) during its fifth parliamentary term, Parliament will be able to confirm its acceptance of the agreement no later than October 1999 by complying with the procedures and
ceilings of the financial perspective, and in any case the agreement may be
terminated, including unilaterally by one of the institutions.

5. Parliament's position has been based on the resolution of 4 December 1997 which established
the link between stringency and flexibility, in view of the uncertainty of many hypotheses
on which the financial perspective was based. This has led to calls for a flexibility instrument
and revision clauses.

6. In this brief introduction your rapporteur wishes to outline the crucial stages of the
negotiations and give an objective appraisal of the agreement in the hope that this will help
MEPs to fulfil their responsibilities on 6 May 1999.

The Vienna 'seminar’ (13 November 1998)

7. Although the Commission proposal on the Agenda 2000 package of measures was presented
on 18 March 1998, and there were many meetings with the various Council Presidencies, the
negotiations really got under way during the 1999 budgetary procedure following an
initiative by the general rapporteur (Mrs Dührkop) which consisted in tabling a "strategic"
amendment which forced the Council to start taking account of and assessing Parliament's
standpoints on the Interinstitutional Agreement and the financial perspective.

8. Your rapporteur would like to pay special tribute to the Austrian Presidency, and in particular
to State Secretary Ruttenstorfer who had the foresight and the ability to force through the
first debate on the Agenda 2000 financial negotiations outside the institutional time-frame
set by the Council.

9. The support of the Presidency resulted in the organization of a "seminar" which not only
enabled the chairman of the Committee on Budgets (Mr Samland) and your rapporteur to
make Parliament's minimum requirements known in an informal context but also enabled
the Austrian Presidency to set certain limits which had seemed insuperable for the Council.
The meeting helped to foster a degree of understanding between the participants.

The extraordinary 'Budgets' Council (8 December)

10. However, a seminar alone cannot change relations between the institutions and the
Presidency once more had the foresight to convene an extraordinary Budgets Council (this
was unprecedented in the history of the Community) on 8 December 1998, where real
negotiations began in a conciliation meeting between the whole Council and an EP
delegation.

11. This conciliation process not only made it possible to conclude the 1999 budget but also to
begin the negotiations on the Interinstitutional Agreement with a common stance by the
institutions on what Parliament felt to be a key principle, namely, flexibility.

The Berlin summit (24-25 March)

12. After the extraordinary Budgets Council of 8 December, and more especially at the urging
of the German Presidency and State Secretary Flasbeck, the Council began its internal
negotiations 'in camera' and, in a surprisingly short space of time, reached a global agreement
on the whole legislative (reform of the structural funds and the common agricultural policy and creation of the pre-accession instruments) and financial package.

13. As you know, this brief but nonetheless exhausting round of negotiations ended on 24-25 March in Berlin with the unanimous agreement reached in the European Council. The conclusions of the summit were unsatisfactory, to say the least. The European Council once more displayed considerable financial short-sightedness in wanting to set expenditure ceilings which, in many cases (Headings 3, 4 and 5), bear no relation to either present or future reality.

14. Furthermore, the European Council ‘enshrined’ the ‘fair return’ principle, which distorts relations between states and between states and the Union, further fostering the ‘accountant’ image of the Union.

15. The Council set ceilings whose limitations will become apparent in due course. Even now, i.e. before the adoption of the agreement, the Council is starting to realize how inadequate the ceilings are for Headings 4 and 5 (in practice they have already been exceeded following the agreement of 26 April), and the ceiling for Heading 2 was underestimated given that a fourth Community initiative, which was not provided for at the Berlin summit, has now been added.

16. After the conclusions of the Berlin summit the negotiations began in earnest and, faced with Parliament's firmness of purpose, the Council agreed to discuss the ceilings. It was essential for the Council to modify the figures if it wanted to come to an agreement with Parliament. It was a positive sign that the Berlin conclusions were viewed as a starting point and not as the final position (as had effectively been the case with the previous agreement reached at the Edinburgh summit).

17. Your rapporteur wishes to emphasize this point, as it is one of the many small signs of the shift in the institutional balance and the greater role and respect that the European Parliament - which is henceforth a Community legislator - has now acquired.

The final phase of the negotiations

18. The Presidency had initially been under the illusion that the Berlin European Council had wound up the negotiations, but the illusion quickly vanished when the delegation appointed to conduct the negotiations (consisting of the chairman and rapporteur of the Committee on Budgets as well as the two rapporteurs for the 2000 budget, Mr Bourlanges and Mrs Müller) explained very firmly that if the Council refused to modify the decisions of the European Council there would be no agreement and no financial framework.

19. Accordingly, after a crisis trialogue convened on 8 April, the Council began to modify the Berlin decisions. It proceeded cautiously but nevertheless dealt with substantial issues such as the classification of expenditure and the ceilings for Headings 3 and 5. Above all, it adopted a new approach to the flexibility instrument which was in line with Parliament's initial ideas. The Presidency presented this supplementary package of proposals to the Committee on Budgets on 21 April.
20. Despite the Presidency’s proposals, on 22 April the Committee on Budgets adopted a resolution by a large majority rejecting the Berlin conclusions.

21. The Presidency got the message and convened a new trialogue in the course of the General Affairs Council of 26 April. The trialogue concluded with a further series of modifications to the European Council’s decisions which are undoubtedly more in line with Parliament’s wishes.

22. The whole package of modifications adopted by the Council will be submitted to the Committee on Budgets on 3 May and to the plenary sitting on 6 May 1999.

Final remarks

23. At the close of this task, which has lasted five years, and in the light of its outcome, your rapporteur would like to make various remarks:

The doubts entertained by the rapporteur

24. Your rapporteur is aware that negotiations such as those which ended on 26 April may lead many to wonder whether more could have been achieved and whether it is better for Parliament to create a climate of conflict or whether its increasing influence and responsibility mean that it should adopt a more responsible role and be more willing to negotiate with the Council.

25. Certainly, as far as the figures are concerned, Parliament would not be at a disadvantage if there were no financial perspective, as your rapporteur has clearly shown, under the procedure laid down by Article 272 of the Treaty. However, the agreement is not merely about additional financial resources but also about influence and credibility. From that standpoint, the outcome of the negotiations can be deemed satisfactory.

26. Satisfactory, but not perfect. Your rapporteur had set targets that were more ambitious than those which Parliament adopted in its report of 4 December 1997.

The progress represented by the agreement

27. To sum up, then, your rapporteur wishes to outline the progress which the agreement represents:

(a) substantial progress in the sphere of interinstitutional cooperation: the extension of the ad hoc procedure to cover non-compulsory expenditure considerably reinforces the codecision aspect of the budgetary procedure and paves the way for a modification to the Treaties;

(b) greater influence and powers for Parliament as regards classification: the agreement acknowledges the points which Parliament had insisted on in the previous parliamentary term (in the Von der Vring report) but which the Court of Justice had refused to recognize. It should be pointed out that, in its ruling of 7 December 1995, the Court continued to maintain that the guiding principle governing the budgetary
procedure was above all the agreement of the two arms of the budgetary authority. The Interinstitutional Agreement would therefore enable a dispute dating back to 30 June 1982 to be resolved.

(c) recognition of flexibility, in financial programming, which Parliament has managed to secure at the price of greater stringency in expenditure ceilings and a financial perspective which covers too long a period to allow realistic forecasts to be made;

(d) the existence of mechanisms for revision and financial margins which will be sufficient to meet the challenges which the Union sets itself;

(e) specific resources enabling the EU to continue its enlargement negotiations with the countries of eastern Europe, which will result in a strengthening of its political and economic role at the start of the new millennium;

(f) expenditure ceilings which, taken as a whole, will enable the Union to maintain a common agricultural policy which will have to be increasingly programmed and less dependent on the vagaries of markets, a cohesion policy which must become the primary instrument for combating unemployment, internal policies, with the possibility of development but also of concentration and decisions taken closer to citizens, and external actions of the Union at a stable level, bearing in mind in particular the European Development Fund expenditure not entered in the budget.
The special reserve and the budget balances

Introduction

1. Parliament adopted its guidelines for the financial perspective when it voted on Agenda 2000 (the future financing system) on 4 December 1997 (Colom I Naval report). According to its own timetable, the Commission should be submitting proposals for revision of the financial perspective and of the Interinstitutional Agreement towards the middle of the first half of 1998.

2. Accordingly, your rapporteur thinks it would be helpful to flesh out the guidelines adopted by Parliament and believes that the various points must be debated within the Committee on Budgets with a view to the opening of negotiations.

3. The first issue presented concerns one of the calls for action which the European Parliament adopted in its resolution of 4 December 1997, i.e. the possibility of making use of appropriations not utilized in the current financial year for unforeseen requirements.

Better utilization of resources

4. Parliament realizes that to increase the own resources ceiling beyond 1.27% or to maintain that ceiling must not be an objective in itself; rather, it must tie in with the Union’s genuine needs. Furthermore, at a time when the Union is stepping up the process of integration internally, through EMU, and opening its doors to the other European countries, the process of developing common policies must continue and be deepened.

5. If we wish to pursue this triple goal - maintaining the 1.27% ceiling, continuation and deepening of common policies, and enlargement - a number of changes need to be made, in your rapporteur’s view, to the structure of expenditure with a view to better utilization of resources.

The mopping-up transfer (or omnibus transfer) - an established practice

6. In a pragmatic fashion, the institutions already make use to a very large extent of the possibility of using unused appropriations for purposes different from those for which they were entered in the budget.

7. In Section III of the budget alone, managed under the watchful eye of the budget Commissioner, fairly significant amounts were moved to other sectors of the budget in the last few months of the year by means of the omnibus transfer and other transfers from one budget article to another.

Utilization of balances

8. Quite rightly, Parliament has very often regarded such year-end entries as an advance appropriation on the following financial year, and, the next year, it has made a deduction.
9. In spite of this practice, which is used not only for Section III of the budget but also for the other sections, each year, with due regard for the principle of budget annuality, enshrined by the Financial Regulation, a large amount is cancelled and entered as a deduction from the revenue which the Member States are required to pay over for the following financial year.

10. In adopting paragraph 18 of the resolution on the Commission communication on Agenda 2000: the 2000-2006 financial framework for the Union and the future financing system(1), Parliament wished to extend application of this practice to other parts of the budget in respect of which the conditions for transfer, with a view to utilization during the financial year, or for possible carryover of appropriations have not been met.

11. The resolution does not indicate how the use of appropriations which are entered in the budget and not utilized can be arranged; and your rapporteur wishes to submit a number of ideas in this connection in expectation of a debate within the Committee on Budgets and a negotiating brief.

12. Firstly, the negotiations on the financial perspective for the post-2000 period and the renewal of the IIA form the ideal setting for a political agreement between the three institutions, even if, as in the past, this must be given effect elsewhere (in particular in the Financial Regulation) in order to implement certain decisions.

**OPTION A: Multiannual operations**

13. For such operations, the multiannual allocation (as in the case, for instance, of research) very often constitutes a spending target. Non-utilization of appropriations during the financial year must make it possible to carry forward monies to the following year, so that equivalent appropriations are freed up.

14. Freed-up appropriations either would be entered for existing or planned operations or would remain available as a contingency margin. They ought to be entered outside the categories of the financial perspective and not be accounted for in the own resources ceiling.

15. This option could be provided for within the new Interinstitutional Agreement by means of an amendment to the Financial Regulation, i.e. Article 7 concerning the conditions for the carryover of appropriations.

**OPTION B: Creation of a fund for future operations and contingencies**

16. This option is of course the most ambitious and, apart from an agreement between the institutions and amendment of the Financial Regulation, would involve the creation of a genuine fund for future operations and contingencies.

17. The fund could be entered within a heading 8 of the financial perspective, possibly not included in the total amount of payments, with the resources only being utilized when needed. The resources would be made available by means of a standard transfer and ought not to affect the ceilings for the various categories.

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(1) A4-0331/97; minutes of the sitting of 4 December 1997.
18. This fund ought to be financed from the non-utilized resources from the previous financial year as part of a supplementary and amending budget incorporating the balances from that year. A ceiling could be set to ensure that the fund did not exceed ECU ... bn.

19. Implementing option B calls for the introduction of more extensive legislative machinery, since it would entail setting up the fund itself.

20. To conclude this first document, the rapporteur calls on the Committee on Budgets:

   - to confirm the willingness to introduce, within the next financial perspective, a mechanism for using budget balances;

   - to indicate the form in which that mechanism could be introduced (option A or B);

   - to enter into contact with the Commission so as to draft a proposal along these lines.
The classification of expenditure, the ad hoc procedure and the guideline

1. In this document, the rapporteur raises a number of issues that cannot be avoided at the forthcoming negotiations on revision on the Interinstitutional Agreement. A large proportion of the questions dealt with in this document focus on Heading 1 of the Financial Perspective.

2. The rapporteur wishes to stimulate a debate and obtain a mandate before negotiations open in order to define the position of the Committee on Budgets on the following three aspects:

A. Classification of expenditure

3. One of the oldest and still unresolved differences of interpretation between the Council and Parliament concerns classification. It should be remembered that this was the reason for initial rejection of the budget in 1980 (rapporteur Mr Piet Dankert) and a Court action on the 1986 budget (rapporteur Mr Christodoulou). A joint declaration was signed by the three institutions in 1982 to introduce, among other things, a procedure to avoid disputes: this procedure has never been respected by the Council. Although the matter was referred to the Court of Justice in 1986 and 1995, the Court has never ruled on the substance of the issue but in both cases based its ruling on the obligation on both arms of the Budgetary Authority to reach an agreement.

4. Although no real progress has been made in this area from the point of view of the institutions, it is worth mentioning a number of events, such as the Court of Justice ruling of 7 December 1995 on Case 41/95.

5. Another relevant fact is that the differences of interpretation concern not only Heading 1, but also Heading 4, in particular with regard to the financial protocols, including those relating to fisheries agreements, and Heading 5 in respect of certain administrative expenses, especially pensions.

6. During the 1993 agreement’s period of validity, the most important incident with respect to classification was the Council’s action before the Court of Justice on the validity of the 1995 budget after Parliament had amended at second reading certain items of expenditure classified as compulsory expenditure by the Council. The Court of Justice annulled the act of the President of the European Parliament declaring the adoption of the budget owing to the failure of the two arms of the budgetary authority to reach an agreement on the classification of expenditure. The Court thus reiterated the views it had expressed in 1986 whereby the budget must be the result of an agreement between the two arms of the Budgetary Authority.

7. As regards classification, the 1993 interinstitutional agreement includes:

(a) a provision on classification (Article 16) which stipulates that:

> The Institutions agree that all expenditure under headings 2 and 3 of the financial perspective is non-compulsory expenditure;

(b) an ad hoc procedure (Article 16 and Annex II) to promote dialogue on appropriations to be entered in the budget irrespective of their classification;
(c) a statement on financial protocols with non-member countries, which reads:

*The Institutions agree that expenditure on financial protocols with non-member countries which are concluded or renewed will be considered non-compulsory*.

8. Parliament still maintains that only the legal act can determine the compulsory nature of expenditure and, in line with this approach, states at the beginning of each annual budgetary procedure, the expenditure which, according to its interpretation of the legal acts, does not meet this criterion (and therefore must be considered non-compulsory). Parliament formally calls on the Council to open a dialogue in order to reach agreement on the classification of expenditure on which there is still disagreement.

9. The Council has never accepted this invitation to open a dialogue despite the fact that the 1982 joint declaration, the 1993 interinstitutional agreement and, above all, the 1986 and 1995 Court of Justice rulings require the two arms of the budgetary authority to seek agreement.

10. Despite the Council’s attitude, the disagreement and classification has not prevented Parliament and the Council from reaching an agreement on the annual amounts to be entered in the budget, thanks to the procedures set up, which have made it possible to reduce the scope for conflict on the subject with respect to adoption of the various budgets.

11. Controversial issues regarding classification concern not only agricultural expenditure, but also fisheries agreements. In this regard, the Committee on Budgets has traditionally upheld the following interpretation:

(a) any expenditure entered in the budget that does not relate to agreements or protocols already in force is considered as NCE;

(b) any expenditure arising from financial protocols based on fisheries agreements is considered as NCE under the terms of the joint declaration referred to in paragraph 4(c).

12. The rapporteur believes that Parliament’s position on point (a) is sound and irrevocable. On the other hand, he considers that Parliament’s recent adoption of certain legislative amendments on the fisheries agreements has weakened its position on (b). It would seem appropriate for the Committee on Budgets, possibly in conjunction with the Committee on Institutional Affairs and the Committee on Fisheries, to devise a formulation of legislative acts that is consistent with the budgetary positions to be upheld during renewal of the Interinstitutional Agreement.

13. Given that the new Treaty of Amsterdam has not amended this aspect of the budgetary procedure, the dispute over classification has yet to be settled and constitutes a potential danger for each budgetary procedure. The rapporteur believes that the Committee on Budgets should confirm its stance in this area and its determination to reach a satisfactory settlement in the context of the new interinstitutional agreement.

(B) The ad hoc procedure

14. The fact that, since the 1993 Interinstitutional Agreement and especially since the 1996 budgetary procedure, budgets have been adopted without any significant dispute over
classification is partly due to the efforts made by all the institutions to make the ad hoc procedure, under Article 16 of the Interinstitutional Agreement, work. The dialogue between Council and Parliament, under the auspices of the Commission, has been increasingly constructive and has made it possible to reach agreement on appropriations to be entered in the budget without having to determine the classification of expenditure.

15. Incidentally, the success of this procedure was acknowledged during negotiations for the Treaty of Amsterdam through a similar procedure applied mutatis mutandis because, since NCE has been applied in the CFSP context.

16. As regards agricultural policy, this procedure has also been improved by being extended to continue the dialogue until the Council's second reading, including submission of the letter amending the PDB submission beyond the deadline laid down by the Financial Regulation. This amendment to the procedure has significantly improved agricultural policy decisions by bringing them more into line with real needs.

17. The rapporteur considers that all the practices that have developed around the various ad hoc procedures should, at least, be 'codified' and, possibly, improved as part of the next Interinstitutional Agreement.

(C) The guideline

18. The agricultural guideline was introduced by the Council Decision of 24 June 1988 on budgetary discipline,(1) which stipulates that 'the rate of increase in EAGGF Guarantee expenditure [...] must not exceed 74% of the rate of increase in Community gross national product during the same period'. This provision should help to control agricultural expenditure which in previous years has been uncontrolled.

19. This provision was confirmed by the Council Decision of 31 October 1994 on budgetary discipline.(2) In its communication on Agenda 2000, the Commission confirms its intention of maintaining the guideline throughout the period 2000-2006. The European Council itself, at its meeting on 12 and 13 December in Luxembourg, confirmed its intention of complying with the guideline on the common agricultural policy.

20. In the context of the agreement on the 1988 and 1993 financial perspectives, the three institutions agreed that the ceiling relating to Heading 1 should comply with the guideline. In actual fact, a comparison between the guideline figures and the budgets implemented during the period 1988-1997 shows that the guideline represented a very comfortable ceiling which did not restrict agricultural requirements. On the contrary, it left the Commission a considerable degree of freedom in quantifying requirements, which led to consistent over-budgeting, as amply illustrated by the Trinity College survey. Nevertheless, while taking account of foreseeable difficulties in the COM reforms, it would be reasonable not to overestimate future potential savings in this sector.

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21. The table (Annex I) provides figures on the Financial Perspective, the agricultural budget and outturn for the period 1988-1997 and shows the relevant disparities. The table also shows that, owing to over-budgeting (which was probably encouraged by the high levels set by the guideline), Member States had to pay unnecessary amounts to Community funds, which were only reimbursed about a year later. This advance placed a burden on national finances and taxpayers without actually benefitting the development of the common policy.

22. Your rapporteur believes that negotiations on the forthcoming Interinstitutional Agreement and, especially, the severe constraints affecting Member States with regard to budgetary discipline, should provide an opportunity to devise a new approach to such issues.

23. The rapporteur considers, firstly, that Parliament must confirm its attachment to maintaining the guideline, as proposed in the communication of Agenda 2000; the guideline is important, not only in financial and budgetary terms, but also because it reflects the historical and present importance of agriculture to rural communities in the Union. Enlargement of the EU will highlight this fact even further.

24. However, we still need to determine how to establish the ceiling in Heading 1 for future financial perspectives. Your rapporteur believes that, on the basis of experience since 1988, the ceiling in Heading 1 for the period of validity of forthcoming financial perspectives should not necessarily match the guideline.

25. The part of the guideline which will not be included in Heading 1 should be entered in a special heading, which could be entitled 'allocated reserve', in which appropriations could be entered and could be mobilized by means of a (possibly reinforced) transfer procedure, but above all, by using supplementary resources which would only be paid to States in the event of transfer, cases relating to 'humanitarian aid reserves' or guarantee funds.

26. The idea of this type of reserve has already been discussed during the 1997 and 1998 budgetary procedures. Your rapporteur believes that the renewal of the Interinstitutional Agreement provides an ideal opportunity to reopen discussions with the other institutions.

27. The establishment of such an 'allocated reserve' meets the need for greater flexibility, which Parliament as already established as a condition for renewal of the IIA and the Financial Perspective. Your rapporteur does not underestimate the problems likely to arise in applying this idea but asks for a mandate to be given to him to submit proposals to this effect to the other institutions.
Common agricultural policy
Comparison between the Financial Perspective, the budget and outturn from 1988 to 1998

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source: Annual Reports of the Court of Auditors
* estimate

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<td>Refunds on Member States’ advance payments</td>
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Structure and flexibility in future financial perspectives

Possible structure for future financial perspectives

1. In this third working document your rapporteur wishes to continue putting forward ideas for discussion within the Committee on Budgets to prepare Parliament’s negotiating position. The present document seeks to focus in particular on two central aspects of the future financial perspectives, namely their structure and the flexibility between different categories.

A. The structure of future financial perspectives

2. Ten years’ experience of financial perspectives has clearly shown that while on the one hand programming by category has enabled expenditure to proceed in an orderly manner, on the other, on several occasions the subdivision of expenditure into headings, and above all a certain amount of inflexibility in the review mechanisms, have restricted the development of some policies, even though resources were available.

3. In this connection, it should be borne in mind that the starting point for any new negotiations is the Treaty, in particular Article 203, which provides for no constraints or restrictions of any kind, except for the shared competence of the two arms of the budgetary authority for compulsory and non-compulsory expenditure. In other words, as far as all non-compulsory expenditure (NCE) in the budget is concerned, Parliament is not subject to any restrictions between the various lines. One of the key elements of the interinstitutional agreements is the self-restraint shown by Parliament vis-à-vis NCE in return for the increase in its powers over compulsory expenditure (CE) and the possibility of systematically exceeding the maximum rate of increase (MRI) without conflict arising.

4. As Parliament has already pointed out in its resolution on Agenda 2000 - the future financing system - its willingness to renew the financial perspective (and its duration) will depend to some extent on the degree of flexibility incorporated into the new agreement. In order to put into practice the ideas adopted by Parliament, your rapporteur feels that the system should be streamlined, with the emphasis on openness.

5. The 1993 Interinstitutional Agreement amended the structure of the 1988 financial perspective. Experience would seem to show that the number and content of the existing categories of the financial perspective are a true reflection of the real situation and the Union's budgetary policy priorities. However, a number of changes or clarifications seem to be needed as regards the content of each category, and a new heading needs to be established to cover the Union's budgetary allocation for future members during the pre-accession process.

6. It should first be pointed out that there is no provision for introducing sub-categories or subceilings within each category, since the types of expenditure concerned serve merely as a guide. In addition, it should be stressed that the financial allocations laid down as part of a legislative framework - within the limits set out in the 1995 joint declaration - fully retain their value, even within the headings.

7. With regard to the content of heading 1, it would seem logical to retain all agricultural spending by the existing Member States. Nevertheless, the suggestion made by the
Commission in Agenda 2000 that certain structural expenditure in the agricultural sector
should be included under category 1 is worth considering.

8. It should also be pointed out that a change in heading has no impact on the nature of the expenditure concerned. Your rapporteur would also draw attention to his working document No 2, in which he stressed that the ceiling in heading 1 should not necessarily match the guideline but should be included under the headings containing expenditure on enlargement and those concerning the allocated reserves.

9. Your rapporteur is not proposing changes to the content of existing headings 2 and 3, including the spending target represented by the appropriations intended for the Funds. Pending the reform of the Structural Funds, and in particular the new breakdown by objectives, Community initiatives, etc., it would seem logical to include Fund appropriations for the existing Member States under category 2.

10. Heading 4 should group together all external expenditure by the Union, including the CFSP, but with the exception of pre-accession aid. The idea of including the EDF in the budget had already been raised in the 1993 financial perspective and your rapporteur feels that the time has come to end this exception to the principle of a single budget and to include the EDF in the budget. The agreement will also have to address the question of how its revenue is included in the budget.

11. As far as administrative expenditure is concerned, there should be no change in the content from the existing situation. Having said that, your rapporteur believes that a change in presentation might make the reading and monitoring of this expenditure easier. In fact, it would be useful for some horizontal expenditure items (interinstitutional expenditure) to appear separately, such as pensions.

12. It would also be useful for all of the Union’s building assets to be grouped together. Indeed, the nature of expenditure on repayment of a buildings loan (even in the form of a leasing arrangement or other financial instrument) makes it different and besides the buildings assets are a source of wealth to the Union as well as an item of expenditure. It is also worth asking whether these assets could not be used to guarantee certain Union activities, as a complement to the Guarantee Fund. The matter should be given some thought.

13. Your rapporteur believes that a heading 6 ‘Allocated reserves’ should bring together all appropriations whose inclusion in the budget can not be anticipated but which could be used depending on expenditure trends and transferred to the lines (headings) from which they were originally taken under the regular budgetary procedure. In the case, the sub-ceilings would be binding. This heading would include:

(a) Reserve for agricultural expenditure (monetary and markets) (included in the guideline)
(b) Emergency aid reserve
(c) Guarantee Fund reserve
(d) Reserve for internal policies
(e) Reserve for external actions

14. In fact, the aim would be to extend to other categories of expenditure a principle that has already been in force since 1988 for the monetary reserves (emergency aid and Guarantee
Fund). In order to ensure parallel treatment with other reserves, these appropriations would be entered automatically in the budget.

15. Having said that, your rapporteur believes that it would not be in the interests of sound resources management for the Member States to pay twelfths of the advances on appropriations which will be included in expenditure planning only once they have been entered against budget lines. Your rapporteur believes that it would be in the Member States’ interests for the resources to be paid only if they are entered against operational lines.

16. The establishment of an allocated reserve of this kind would reduce the margin for contingencies provided for in the table included by the Commission in Agenda 2000.

17. Both the European Parliament(¹) and the Luxembourg European Council(²) have clearly expressed their desire for accession expenditure to be included under a separate heading in future financial perspectives. With this in view, your rapporteur proposes that a new category 7 be established EU enlargement (pre-accession expenditure). This new heading would include:

(a) agriculture (included in the guideline)
(b) structural measures
(c) internal policies
(d) existing appropriations included in part B7 of the budget

18. This would offer guaranteed protection of appropriations allocated for pre-accession measures. As pointed out by the Commission in Agenda 2000, pre-accession aid is covered by the agricultural guideline. Your rapporteur believes that priority should be given to including this heading in the next financial perspective. In addition, the creation of a separate heading would be consistent with the approach taken by Parliament in the 1998 budget procedure, where it established an annex grouping together all expenditure on internal policies for the countries of central and eastern Europe.

B. Flexibility

19. One aspect of flexibility is the way in which transfers from the reserve to the operational lines are governed. Your rapporteur believes that the interinstitutional agreement should address the following matters:

(a) Flexibility between categories
(b) Flexibility between the reserve and the categories

(a) Flexibility between categories


20. The interinstitutional agreement should make some provision for flexibility between categories. Your rapporteur believes that it should be possible to amend ceilings during the budgetary procedure under the following conditions:

(a) defining a maximum quantity or percentage for transfer;
(b) not exceeding the annual total of ceilings for commitment appropriations. In real terms this means that, during the annual procedure, if there is no margin under the ceilings of one category, the budgetary authority may enter the appropriations considered justified provided that the total for commitment appropriations laid down in the financial perspective is observed;
(c) respecting the allocation for each category in the period covered by the financial perspective, which means that, if appropriations are taken from one category during one financial year, they should be returned during the following year or years.

(b) Transfers between the reserve and the categories

21. During the debate on working document No 2, which advocated the idea of the allocated reserve, several questions were raised concerning transfers between the reserve and the different categories. In fact, two situations may arise:

* the need to mobilize the reserve may arise before the end of the procedure, in which case this will normally be done under the regular procedure;
* the need to mobilize the reserve may occur after the end of the procedure, in which case the Commission must initiate a transfer procedure.

22. At present, the interinstitutional agreement provides for a special procedure known as negative codecision for the reserves entered under heading 6. Could this procedure be applied to the other reserves? This is a possibility on which the Committee on Budgets should give its views, but perhaps it is not the only one.

23. For example, as mentioned in working document No 2, provision could be made for a 'reinforced' procedure, with extended deadlines - six weeks could be too short for complex decisions such as the release of substantial sums. If necessary, a trialogue with the Council could be envisaged to consider the validity of the conditions invoked by the Commission.

24. Your rapporteur expects the Committee on Budgets to adopt a stance on all the points raised in this document to provide guidance on the position to be adopted.
The Commission proposals on the Interinstitutional Agreement: innovative aspects

Introduction

1. On 18 March, the Commission approved the proposals resulting from Agenda 2000, which are an important factor for Europe’s future in the 21st century.

2. This set of documents is vital in terms of defining the strategy. The Committee on Budgets is the committee responsible solely for the Interinstitutional Agreement and the financial perspective.

3. Nonetheless, your rapporteur would stress that the set of proposals constitutes a package and that the Committee on Budgets is duty-bound to have a coherent position in its role as negotiator with the other institutions. That need must be reflected in close cooperation with the draftsmen. Likewise, the reports of the other parliamentary committees must reflect the positions of the Committee on Budgets.

4. The other preliminary point which your rapporteur would like to make is that the negotiations which will be commencing shortly will be difficult and protracted: it must be borne in mind that these negotiations are not governed by the rules of the annual budgetary procedure, in which Parliament has the final say on NCE. The IIA and the financial perspective are negotiated within a framework which is closer to codecision than to the budgetary procedure; account will have to be taken of this.

5. With a view to the first meeting of the Committee on Budgets following the Commission’s submission, the rapporteur wishes to focus the debate [obtain the opinion of the members of the Committee on Budgets] on the most innovative aspects presented by the Commission and defer analysis of the financial perspective and the figures. Accordingly, this working document sets out the various points in the proposals presented, either in condensed form or directly taken from the Commission text, but the treatment is not exhaustive.

The innovative aspects

Proposals heading by heading

Heading 1

a. Agricultural guideline

6. The Commission proposes to maintain the current method for calculating the agricultural guideline, though it proposes to move EAGGF Guidance Section measures (NCE) to heading 1.

Heading 2

b. Conditions for implementation of the Structural Funds

7. The Commission proposes that commitment appropriations not paid out within two years of being entered in the budget should automatically be cancelled.
8. Under this new approach to management of the Structural Funds, it would no longer be necessary to provide for amounts not spent in a given financial year to be transferred to subsequent years, which would involve raising the ceiling of the corresponding heading.

c. **Index-linking for inflation**

9. According to the Commission, the deflators forming the basis for index-linking, for entry in the budget, the annual allocations originally set at constant prices ought to be determined in advance under the new rules. There could be a mid-term review of the index base in the light of actual inflation.

**Heading 6**

d. **Monetary reserve**

10. The Commission proposes to phase out allocations for the monetary reserve, which has been of virtually no real benefit.

e. **Reserve for loan guarantees**

11. Although the current operating rules, in the Interinstitutional Agreement, for this reserve would remain unchanged, the new parameters proposed in the report on the operation of the mechanism would result in a reduction in the allocation for the reserve for loan guarantees.

f. **Reserve for emergency aid**

12. Three changes are proposed:

- Redefinition of the criterion for marshalling the reserve. The reserve ought no longer to be drawn on to meet needs which exceed what was expected in existing situations. The reserve would only cover genuinely new and unforeseeable needs.

- The reserve must be drawn on where such a need is identified, even before the operational items are exhausted, as soon as the spending programming arrangements for them indicate that they will be fully used.

- The reserve ought to be marshalled only to provide significant amounts. The Commission proposes to stipulate that a neutral margin of less than EUR 15 m must be covered through redeployment.

Accordingly, the Commission proposes to reduce the allocation for the reserve.

**Heading 7**

g. **Heading for enlargement**

13. No proposal has been submitted by the Commission.
Flexibility in the management of the financial perspective

h. Procedure for revision of the financial perspective

14. The current arrangements remain unchanged: the revision procedure should be used exclusively for relatively significant and lasting adjustments to the financial framework and ought normally to take place ahead of the preparation of the budget concerned.

i. Flexibility between headings 3 and 4

15. The Commission is introducing the possibility of transferring, for a given year, allocations between headings 3 and 4 of the financial perspective under a more flexible procedure than the revision procedure:

- the transferable amount would have to be capped in absolute terms, e.g. at EURO 100 m;
- at all events, a margin would have to remain available beneath the ceiling of the original heading;
- use could not be made of this option for similar reasons, i.e. to top up the same budget lines, the following year.

Transfer would be possible during the annual budgetary procedure without formal adjustment of the relevant ceilings. The use of this transfer mechanism would be subject to conciliation, under the arrangements laid down, between the two arms of the budgetary authority.

j. Flexibility from one financial year to the next

16. The Commission proposes to provide in the new agreement for part of any positive budget balance from the previous financial year to be used to cover large needs for a significant policy area to be determined in advance. It could be agreed that the budgetary authority could adopt commitment appropriations outside financial perspective ceilings up to a maximum of EUR 500 m, say, provided that the appropriations concerned were offset by a corresponding underspend in the previous budget and were at least equal to the positive balance from the previous financial year.

17. The use of this option ought to be subject to an explicit agreement between the two arms of the budgetary authority.

k. Subceilings within headings

18. The Commission proposes that the subceilings for headings, in particular those relating to enlargement, should be as strict as the ceilings for the headings themselves.
Duration of the financial perspective

1. **Financial perspective adjustment clause**

19. The financial framework will have to be adjusted, by agreement between the two arms of the budgetary authority, when the first accessions actually take place. This will mean restoring to the various headings of the financial perspective all or part of the amounts left available and, if these are not sufficient to meet enlargement needs, to revise the financial framework with due regard for the own resources ceiling.

m. **Extension of the financial perspective**

20. Unless one of the parties expressly foregoes extension, the agreement will be extended year by year until the entry into force of a new financial perspective. The Commission therefore proposes that, should the financial perspective be extended, the ceilings in force should be raised by the average annual rate of increase over the period 2000-2006, though the rate of increase of each of the headings would not be allowed to exceed the increase in GNP.

Improvement of the budgetary procedure

n. **Classification of expenditure**

21. The Commission proposes that rural development measures and all other expenditure financed by the EAGGF Guarantee Section which is not linked to common market organizations (veterinary measures, promotion schemes) should be included in the category of non-compulsory expenditure. CE would therefore be expenditure directly linked to a CMO. Headings 2 and 3 would remain NCE. Under heading 4, the Commission proposes that the Community’s contribution to the EBRD capital and to fisheries agreements, other than those to international organizations, should be considered compulsory expenditure.

22. The Commission proposes that new budget items be classified under a conciliation procedure extended to the entire budget. Failing an agreement between the two arms of the budgetary authority, the classification proposed by the Commission would be deemed to have been approved on the basis of a negative codecision procedure.

o. **Legislative and budgetary powers**

23. The Commission proposes that the principle set out in the Joint Declaration of 6 March 1995 that the institutions undertake to comply during the budgetary procedure with the reference amounts set in the legislative codecision procedure should be maintained. However, the two arms of the budgetary authority should be given the possibility of departing from those amounts (with the exception of Social Fund and ERDF expenditure), by common accord, during the conciliation procedure. Failing an agreement between the Council and Parliament on an amount other than that set by the legislative authority, the arm of the budgetary authority
which has the final say would be able to depart from the reference amount by up to 10% in either direction.

p. **Legal bases**

24. The Commission proposes that the new agreement might depart from the principle that a legal basis must exist before appropriations earmarked for a Community measure can be used, i.e.:

   - items with an allocation below a certain amount, with due regard to the principle of budget specification,
   - preparatory measures and pilot projects, specifying how long they may continue without a legal basis,
   - autonomous measures, i.e. generic measures under the Treaty for which the Treaty alone constitutes an adequate legal basis.

q. **Possibly late submission of the letter of amendment concerning agriculture**

25. The Commission proposes that the consensus reached in this connection - that a decision on the letter of amendment should be taken at a single reading - be put on a formal footing.

26. Furthermore, the scope of the letter of amendment could be extended to include expenditure on fisheries agreements.

r. **Joint Declaration of 12 December 1996 on fisheries agreements**

27. The Joint Declaration also states that Parliament and the Council will endeavour to agree on the amount of appropriations involved during the ad hoc conciliation procedure on compulsory expenditure provided for in Annex II to the 1993 Interinstitutional Agreement. The new Interinstitutional Agreement should state that:

   - All appropriations for fisheries agreements which are certain to enter into force during the financial year will be entered against the operational item;
   - A sufficient period - six months, for instance - should be allowed after Parliament is informed about the terms and financial implications of the agreement and before the corresponding appropriations can be used, so that Parliament can deliver its opinion in advance. After that period, the appropriations could be used.

s. **Financing of the common foreign and security policy**

28. The institutions have agreed to step up both budgetary conciliation, by seeking agreement on the amounts to be entered in the budget, and the exchange of information on the actual content of the action carried out.
t. **Enlarged scope for conciliation**

29. The Commission takes the view that the broader scope which has developed with regard to conciliation as an important instrument in the budgetary procedure should be written into the Interinstitutional Agreement.

30. This conciliation should be extended to the entire budget, thus including NCE as well as the following issues:

- classification of expenditure
- the proposed flexibility between headings 3 and 4
- agreement on the amounts to be entered in the budget for fisheries agreements
- CFSP

The institutions could agree to depart from the reference amounts set by the legislative authority for multiannual programmes adopted under the codecision procedure.

31. Extended conciliation would come before the Council’s first reading. It would resume after the two arms of the budgetary authority had had an opportunity to give the budget its first reading and at the same time as the Council’s second reading, which would allow the institutions also to discuss the letter of amendment concerning agriculture to be submitted in October.
The revision of the Interinstitutional Agreement and the financial perspective

1. The rapporteur agrees fully with paragraph 15 of Parliament’s resolution of 4 December 1997(1), which runs thus:

   Considers that the application in the budget of what is known as the ‘fair return’ principle should be excluded; underlines that all budgetary and non-budgetary benefits gained from participation in European integration should be taken into account, in particular the objective benefits resulting from the internal market and the prospect of enlargement.

2. The rapporteur emphasizes that the concept of the ‘fair return’ is relevant to a system of national contributions such as that employed by most international organizations, yet runs counter to the very concept of own resources, the nature of the Treaties, the process of building Europe, and the repeal of Article 200 of the EEC Treaty.

3. In the rapporteur's opinion, a fair own resources system will not have been established until a Community system of personal taxation has been introduced and the principles of progressiveness on which the taxation systems in the Member States themselves are founded have been embraced.

4. However, the fact that various figures regarding Member States’ ‘contributions’ have been bandied about for some time would seemingly warrant an analysis, however perfunctory, of certain economic concepts.

5. One widely-used concept is that of the ‘net budgetary balance’, understood as the difference between the amount a Member State receives from the Community budget and the amount it contributes to it.

   From the figures quoted in various quarters it would appear that this balance is merely the difference between payments to and from national treasuries. The European Parliament cannot agree that what a Member State collects in the form of own resources should be considered as the contributions from its budget and denies that they have any political validity or legal force. Moreover, in its opinion, even the most simplistic and popular view of ‘national contributions’ should exclude traditional own resources, namely agricultural levies and the common customs tariff. The figures for the budgetary balances of each Member State, based on the data released since 1991 by the Court of Auditors in its Annual Report, are contained in a separate annex. The rapporteur does not wish to discuss the method employed by the Court in distributing the payments from headings 3, 4 and 5 amongst the Member States. Furthermore, he has chosen not to contemplate the impact that the distribution of some of the expenditure not allocated by the Court might have on the balances in certain Member States.

6. The table below presents a summary of the figures for the said period and their relation to the population of a given Member State, thereby providing a rough estimate of the net average

per capita amount which each Member State contributed to, or received from, the EU budget over the period 1991 to 1996 (minus signs denote contributions).

7. These calculations reveal a range of figures, from the ECU 92.5 ‘contributed by each German national’ to the Community budget per year, to the ECU 648 ‘received by each Irish national’.

<table>
<thead>
<tr>
<th>Real Net Budgetary Balance, 1991-1996</th>
<th>per capita average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>Average (1)</td>
<td>849</td>
</tr>
<tr>
<td>Population (2)</td>
<td>10.15</td>
</tr>
<tr>
<td>Per capita (3)</td>
<td>83.6</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>L</td>
</tr>
<tr>
<td>Average (1)</td>
<td>125</td>
</tr>
<tr>
<td>Population (2)</td>
<td>0.41</td>
</tr>
<tr>
<td>Per capita (3)</td>
<td>304.1</td>
</tr>
</tbody>
</table>

(1) ECU m (current prices) (2) Millions (3) ECU

8. The figures quoted in the preceding paragraph may well match preconceptions, yet a detailed analysis of the table - and, by extension, of the contents of the annex - shows that the problem of the net budgetary balances can be looked at in a way which tells a very different story from the one usually heard.

9. In the rapporteur’s view, despite the fact that the issue of net budgetary balances has been taking on increasing importance recently, it is far from being the issue which ought to define the Union’s taxation and budgetary policy (nor should resolving it be a top priority in that policy field). The own resources system and those policies with implications for the budget should not depend on net budgetary balances being set at a certain level - not only because there exists a certain concept of solidarity amongst the different parts of the Union and its citizens, but also because the budget is not the single most crucial element in the economic relations between the Member States.

10. Intra-Community trade, for instance, is considerably more important. The value of exports from the Netherlands or from Belgium and Luxembourg to the other Member States is far higher than the Community budget. The same applies, of course, to Germany, France and the United Kingdom.

The separate annex contains a table illustrating the trends in the Member States’ intra- and extra-Community trade. The figures shown in the table go back to 1988, when all 15 current Member States were first included.

11. The table shows that the Netherlands, for example, increased its (positive) trade balance with the other 14 Member States by 194% between 1988 and 1996, whilst its exports rose by 61% over the same period (as against the 40% growth in extra-Community exports). Denmark’s
trade balance progressed from ECU -629 m to ECU +1 846 m, Italy’s from ECU -5 537 m to ECU +9 987 m. Portuguese and Spanish exports rose by 107% and 138% respectively, whilst Irish exports increased by as much as 252%.

Not all of the figures speak so eloquently, but it is apparent in every instance that intra-Community trade has been enjoying higher growth than extra-Community trade, and that it accounts for an ever larger proportion of the Member States’ overall trade.

12. The trend in Spain and Portugal’s trade relations since their accession to the European Union provides a final example of the importance of trading activity. These two countries share certain characteristics: they joined the EC at the same time; they are most definitely ‘net beneficiaries’ of budgetary resources; and important similarities run through their economies.

13. From the tables in the annex charting the trend between 1985 (the year before their accession) and 1996 it can be seen that the clear trend apparent until 1992 - the year of the crisis in the European Monetary System and of the sharp devaluations of the escudo and the peseta - then gives way to a kind of statistical stagnation.

14. The following selected figures may serve as an illustration:

Spain’s trade balance with the EU declined from ECU +2 231 m in 1985 to ECU -11 784 m in 1992 and stood at ECU -6 934 in 1996. Its bilateral balance with France, showing a surplus of ECU +1 363 m in 1985, then fell to ECU -2 051 m in 1992 and stood at ECU -1 157 m in 1996. The trend in its trade with the Netherlands progressed from ECU +911 m in 1985 to ECU -750 m in 1992 and to ECU -1 684 m in 1996. The trend in its trade with Denmark was still more pronounced in percentage terms: a surplus of ECU +25 m in 1985, followed by figures of ECU -286 m in 1992 and ECU -254 m in 1996.

Portugal’s trade balance with the EU declined from ECU +426 m in 1985 to ECU -6 480 m in 1992 and stood at ECU -5 328 in 1996. Its trade relations with the Netherlands produced a balance of ECU +192 m in 1985, ECU -832 m in 1992 and ECU -274 m in 1996. The trend in its trading relations with France took a similar path, falling from a surplus of ECU +131 m in 1985 to ECU -994 m in 1992, and stood at ECU -329 m in 1996.

15. The figures set out in the previous paragraphs are intended to demonstrate that the economic relations amongst EU Member States are complex, and thus the analysis of a new financial perspective should not adopt a focus aimed primarily at resolving problems arising out of budgetary balances in certain Member States.

16. The efforts at budgetary rigour in all Member States, efficiency in Community expenditure and the subsidiarity principle should be taken into account in establishing the Union’s financial needs over the coming years. Still more important, however, is compliance with the policies which the Union has embraced and for which it is accountable to its citizens: its policies on agriculture, cohesion, research and aid for third countries, and above all its policy towards the applicant countries.

17. A financial perspective which is so heavily influenced by discussions on the Member States’ budgetary balances that it fails to take into consideration the priorities listed in the preceding paragraph will not benefit anyone, the Member States included.
The maximum rates of increase (Article 203 v. FP)

Introduction

1. In the documents which he has drawn up as rapporteur of the Committee on Budgets (list attached) and during the debates which followed their presentation, your rapporteur, who already had the honour of being the rapporteur with regard to the 1993 Interinstitutional Agreement, was able to point out the advantages of the IA for Parliament. That agreement led, inter alia, to a genuine improvement and détente in the budgetary procedure, effective participation by Parliament in the CE, discipline in agricultural expenditure, and the financing of the structural policy.

2. The result of the 1988 and 1993 agreements was to increase the ceiling of the Community's own resources from 1.14% to 1.20% and from 1.20% to 1.27% respectively. The advantages obtained led the European Parliament to waive temporarily, for the period of the agreement, certain budgetary powers laid down in the treaties. In addition, the agreements enabled an increase in NCE well beyond the most plausible growth in Parliament's margin of manoeuvre under Article 203 of the EC Treaty or its margin of manoeuvre allowed under the decision on own resources and by the total amount of the FP.

3. The situation is different with regard to the period 2000-2006. In its communication on Agenda 2000, the Commission does not propose any increase in the ceiling of the Community's own resources. In its resolution of 4 December 1997 on Agenda 2000, Parliament laid down a certain number of conditions which should form an integral part of the negotiations. Your rapporteur believes that interinstitutional concerns (improvement of the budgetary procedure, flexibility and so forth) are one of the determining factors with regard to Parliament's decision on the conclusion of a new Interinstitutional Agreement.

4. Your rapporteur's terms of reference are the resolution of 4 December 1997. Accordingly, your rapporteur must present the various possibilities, inter alia that the objectives laid down cannot be achieved. In the opinion of your rapporteur, paragraphs 5, 6 and 18(1) of that resolution provide a good summary of certain aspects which must be followed up. In order to determine the terms of reference for the forthcoming negotiations, it seems appropriate to assess the consequences of a period where there is no Interinstitutional Agreement.

(1) 5. Considers, therefore, that the duration of the next financial perspective will depend mainly on the flexibility incorporated into the new Interinstitutional Agreement, either between headings, or by means of a binding revision clause, so as to take into account the uncertainty of future developments;

6. Emphasizes that any new financial perspective (revenue and expenditure) must be revised automatically once one or more applicant countries sign the accession to the Union and, likewise, if appropriate reforms of the agricultural and structural policies are not realized or if the estimated rate of growth is not attained;

18. Considers that the submission of the forthcoming proposals regarding the financial perspective should be accompanied by a revision of the Interinstitutional Agreement which should make it possible, inter alia, to get rid of certain cumbersome features through greater flexibility, limited revision of the headings and the elimination of the remaining anachronisms in the procedures, such as the classification of expenditure; it should also include the option of not repaying unused appropriations to the Member States but of investing them in a special reserve chapter; such appropriations could then be used firstly for unexpected developments within the Union and secondly for the process of enlargement;
Why is a new Interinstitutional Agreement necessary?

5. To clarify the terms of reference for the negotiations we should first of all consider the consequences of the lack of any such agreement, in other words the situation referred to in paragraph 8 of Parliament’s resolution(1).

6. Despite his efforts it is of course obvious that your rapporteur does not have a crystal ball and cannot foresee some key factors such as growth in GNP or developments in national budgets or give a ‘cast-iron’ reply to that question. He can nevertheless attempt to present a simulation based on the Commission’s data and certain assumptions:

(A) **Classification**: Your rapporteur has adopted the Commission’s classification which appears in the Agenda 2000 proposals and which enables the NCE base to be determined, the MRI being applied to that base in order to calculate Parliament’s margin of manoeuvre.

(B) **The base of non-compulsory expenditure for 1999**: your rapporteur has relied on two assumptions:

1. the 1999 budget basis calculated on the 1999 preliminary draft budget; and
2. the treatment of all accompanying measures (B1-5) and measures to promote the quality of products (B1-38), totalling ECU 2 697m, as NCE. These measures are clearly NCE, as are all the measures which will be transferred from heading 2 to heading 1.

In fact, these measures have only a marginal impact on the base. If this expenditure did not form part of the NCE base in 1999, it would not form part of it in the following years either and would therefore be financed as CE. Table x gives an overall view of the potential NCE in each heading.

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(1) Points out that, in the absence of an agreement between the institutions on revision of the financial perspective, the budget procedure can always be conducted pursuant to Article 203 of the EC Treaty.
The MRI in constant prices

7. The financial perspectives for all the NCE are expressed in constant prices. For this reason, it is necessary to refer to a simulation of MRI in constant prices.

8. It should be borne in mind that Article 203 provides that the MRI is composed of:

- the trend, in terms of volume, of the gross national product within the Community;

- the average variation in the budgets of the Member States; and

- the trend of the cost of living during the proceeding financial year.

9. The table below shows how the MRI has developed during the last ten years, on the basis of macro-economic indicators. In order to make a distinction between the growth in the volume of GDP volume and the volume of national budgets, the price deflator has been removed. The MRI must be disaggregated: Table z gives MRI at constant prices, in other words with the deflator removed.
### Indicators used in the calculation of MRI

<table>
<thead>
<tr>
<th></th>
<th>GDP Volume</th>
<th>GDP Deflator</th>
<th>GDP Value</th>
<th>Central Govt. Expenditure</th>
<th>Max. Rate of Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>2.6%</td>
<td>1.7%</td>
<td>4.36%</td>
<td>0.49%</td>
<td>2.4%</td>
</tr>
<tr>
<td>1998</td>
<td>1.6%</td>
<td>2.4%</td>
<td>4.00%</td>
<td>1.09%</td>
<td>2.5%</td>
</tr>
<tr>
<td>1997</td>
<td>2.4%</td>
<td>2.9%</td>
<td>5.34%</td>
<td>3.30%</td>
<td>4.3%</td>
</tr>
<tr>
<td>1996</td>
<td>2.7%</td>
<td>2.6%</td>
<td>5.41%</td>
<td>2.58%</td>
<td>4.0%</td>
</tr>
<tr>
<td>1995</td>
<td>-0.5%</td>
<td>3.6%</td>
<td>3.17%</td>
<td>5.63%</td>
<td>4.4%</td>
</tr>
<tr>
<td>1994</td>
<td>1.1%</td>
<td>4.7%</td>
<td>5.82%</td>
<td>8.02%</td>
<td>6.9%</td>
</tr>
<tr>
<td>1993</td>
<td>1.4%</td>
<td>5.4%</td>
<td>6.88%</td>
<td>7.45%</td>
<td>7.2%</td>
</tr>
<tr>
<td>1992</td>
<td>2.8%</td>
<td>5.4%</td>
<td>8.35%</td>
<td>10.13%</td>
<td>9.2%</td>
</tr>
<tr>
<td>1991</td>
<td>3.4%</td>
<td>4.6%</td>
<td>8.18%</td>
<td>6.30%</td>
<td>7.2%</td>
</tr>
<tr>
<td>1990</td>
<td>3.6%</td>
<td>3.9%</td>
<td>7.60%</td>
<td>4.60%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>GDP deflated</th>
<th>Cent.Govt. Exp. (deflated)</th>
<th>MRI deflated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>2.6%</td>
<td>-1.58%</td>
<td>0.51%</td>
</tr>
<tr>
<td>1998</td>
<td>1.6%</td>
<td>-1.30%</td>
<td>0.15%</td>
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<td>2.4%</td>
<td>0.46%</td>
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<td>1996</td>
<td>2.7%</td>
<td>0.31%</td>
<td>1.51%</td>
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<td>-0.5%</td>
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<td>0.80%</td>
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<td>1.1%</td>
<td>2.34%</td>
<td>1.72%</td>
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<td>1993</td>
<td>1.4%</td>
<td>1.67%</td>
<td>1.54%</td>
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<td>1992</td>
<td>2.8%</td>
<td>3.12%</td>
<td>2.96%</td>
</tr>
<tr>
<td>1991</td>
<td>3.4%</td>
<td>1.08%</td>
<td>2.24%</td>
</tr>
<tr>
<td>1990</td>
<td>3.6%</td>
<td>0.27%</td>
<td>1.94%</td>
</tr>
</tbody>
</table>

**Average, MRI, at constant prices, 1994-1999=1.02**

### Application of the MRI for the period 2000-2006

10. This analysis of the period 1990-99 shows that the MRI at constant prices has increased between a minimum of 0.15% and 2.96%.

11. Taking as the assumption of the real growth in GDP that used by the Commission in its proposal (2.5%) in order to estimate MRI in constant prices, the variable to be used is the average growth in real terms in the budgets of the Member States.
12. The table below incorporates the data referred to in the previous paragraphs: The NCE base and MRI in constant prices. It shows the figures which would emerge from a budget without any financial perspectives in which the European Parliament would regain all the flexibility conferred upon it by the Treaty with regard to NCE.

### Hypothetical evolution of the EU budget on the basis of the application of Article 203 of the Treaty.

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment CE/NCE FP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL APPRONS. FOR COMMITMENTS CE</td>
<td>44 505</td>
<td>47 571</td>
<td>49 235</td>
<td>50 523</td>
<td>50 750</td>
<td>50 891</td>
<td>51 007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL APPRONS. FOR COMMITMENTS NCE</td>
<td>57 267</td>
<td>59 098</td>
<td>60 485</td>
<td>59 938</td>
<td>59 291</td>
<td>58 535</td>
<td>57 816</td>
<td>57 211</td>
<td>412 374</td>
</tr>
<tr>
<td></td>
<td>3.2%</td>
<td>2.3%</td>
<td>-0.9%</td>
<td>-1.1%</td>
<td>-1.3%</td>
<td>-1.2%</td>
<td>-1.0%</td>
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<td></td>
</tr>
</tbody>
</table>

1999 Budget simulation=GDP 99

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL APPRONS. FOR COMMITMENTS CE</td>
<td>42 331</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>TOTAL APPRONS. FOR COMMITMENTS NCE</td>
<td>57 267</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Growth in the budgets of the Member States = -1.1%

MRI = 0.7 %

| Total trend in NCE with MRI at constant prices | 100.7% | 57 672 | 58 080 | 58 491 | 58 905 | 59 321 | 59 741 | 60 164 | 412 374 |
| Difference | -1 426 | -2 405 | -1 447 | -386 | 786 | 1 925 | 2 953 | 0 |

Growth in the budgets of the Member States = -0.5%

MRI = 1 %

| Total trend in NCE with MRI at constant prices | 101.0% | 57 840 | 58 418 | 59 002 | 59 592 | 60 188 | 60 790 | 61 398 | 417 228 |
| Difference | -1 258 | -2 067 | -936 | 301 | 1 653 | 2 974 | 4 187 | 4 854 |

Growth in the budgets of the Member States = +0.5%

MRI = 1.5 %

| Total trend in MCE with MRI at constant prices | 101.5% | 58 126 | 58 998 | 59 883 | 60 781 | 61 693 | 62 618 | 63 557 | 425 656 |
| Difference | -972 | -1 487 | -55 | 1 490 | 3 158 | 4 802 | 6 346 | 13 282 |

13. The above table shows that any real increase in national budgets in excess of -1.1% leads to a margin of manoeuvre in NCE greater than the volume of NCE contained in the Commission proposal.

14. Although difficult to imagine, it would be possible for the MRI to be lower than 0.7%. By way of example, even during a period of budgetary constraint such as the last six years, when national budgets decreased on average over the six years to attain the EMU objectives, the MRI was 1.02%.
### ANNEX

Working documents presented by the rapporteur, Mr COLOM I NAVAL on the operation of the IIA and the revision thereof

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>PE No</th>
<th>Document and Title</th>
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<tbody>
<tr>
<td>1992</td>
<td>17 February</td>
<td>156.255</td>
<td>WD Revision of Institutional Agreement and financial perspectives</td>
</tr>
<tr>
<td>1993</td>
<td>3 June</td>
<td>205.512</td>
<td>Negotiations on a New Interinstitutional Agreement - Communication on the state of the negotiations</td>
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<tr>
<td>1994</td>
<td>9 November</td>
<td>210.263</td>
<td>WD 2 Adjustment of the financial perspective</td>
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<td>1 December</td>
<td>210.728</td>
<td>WD 3 Outcome of the triologue of 29 November 1994 on revision of the financial perspective</td>
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<tr>
<td></td>
<td>12 December</td>
<td>211.063/fin</td>
<td>Report on the adjustment of the financial perspectives in view of the enlargement of the European Union</td>
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<tr>
<td>1996</td>
<td>1 March</td>
<td>216.187</td>
<td>WD 1 Revision of the financial perspective</td>
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<td>1 March</td>
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<td>WD 2 Mobilization of the reserve for emergency aid</td>
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<td>25 March</td>
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<td>10 May</td>
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<td>5 July</td>
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<td>WD 5 Financial perspectives</td>
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<td>1997</td>
<td>30 January</td>
<td>220.401</td>
<td>WD 6 Financial perspectives</td>
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<td>5 May</td>
<td>220.030/Ann.</td>
<td>WD 7 Annexes</td>
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<td>28 July</td>
<td>222.934</td>
<td>WD 1 Agenda 2000. - The future financing of the Union - The new financial framework 2000-2006</td>
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<td>23 January</td>
<td>225.524</td>
<td>WD1 Special reserve and the budget balances</td>
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<td>13 February</td>
<td>225.540</td>
<td>WD2 Classification of expenditure. the ad hoc procedure and the guideline</td>
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<td>2 April</td>
<td>225.567</td>
<td>WD3 Structure and flexibility in future financial perspectives</td>
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<td>4 May</td>
<td>226.673</td>
<td>WD4 Commission's proposals on the Interinstitutional Agreement: innovative aspects</td>
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<td></td>
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<td></td>
<td>WD5 Commission's proposals: comments of the rapporteur (Part 1: Principles of the Agreement, Part 2: Categories used in the FP)</td>
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</tbody>
</table>
Questions and answers concerning the EP’s priorities on the IIA and revision of the FP

Introduction

At first reading the European Parliament adopted an amendment, tabled by the general rapporteur for the 1999 budget, Mrs Dührkop Dührkop, which links the 1999 budget and the Interinstitutional Agreement now being negotiated. The amendment was therefore termed the bridging, or strategic, amendment.

The amendment incorporates into the budget virtually all the existing margins in headings 3, 4 and 5, totalling €1 540 m in commitment appropriations and €3 550 m in payment appropriations.

The justification for that amendment stipulates that it will be maintained until there is a guarantee of a measure of flexibility in the financial perspective and the IIA.

In this document, and prior to Parliament's second reading, the rapporteur for the Interinstitutional Agreement wishes to explain what objectives are to be pursued and how to realise them.

This document is intended for the Members of Parliament and in particular the members of the Committee on Budgets, who may have to vote on an amendment which may be modified at second reading.

A. What is the reason for the strategic amendment?

Contrary to a widely held view, it is not Parliament which has linked the 1999 budget and the FP; rather, it is the Council. A number of delegations within the Council maintain that the starting point for the 2000 FP should not be the 1999 FP, as proposed by the Commission, but the 1999 budget at the lowest level (setting a new base for the FP).

In the face of the attitude of a number of delegations, Parliament has had, and will have, to keep spending at a high level, close to that permitted by the 1999 FP, in order to safeguard its interests during the negotiations.

B. Is the strategic amendment lawful?

The strategic amendment is entirely lawful because it observes the ceiling for each heading and the financial perspective. Your rapporteur would also point out that Article 17 of the IIA stipulates that:

'The two arms of the budgetary authority agree to accept for each of the financial years from 1993 to 1999, the maximum rates of increase for non-compulsory expenditure deriving from the budgets established within the ceilings set by the financial perspective.'

and that the slightest protest by the Council - in plenary - could be regarded as a violation of the agreement and, at all events, unilateral termination of the IIA in force. Such machinations by the Council ought to prompt a rethink as to the desirability of continuing negotiations on a new Interinstitutional Agreement and a new FP.
C. **In tabling this amendment, is the European Parliament modifying the responsible attitude which led it to pursue a rigorous budgetary policy in 1997 and 1998?**

The budget adopted by the EP at first reading - without the strategic amendment - proves that the EP is capable of adopting a most rigorous budget (1.1% of GNP).

However, likely expenditure for 1999 and the need and duty to safeguard the EP’s prerogatives for the next seven years have forced the EP to make this choice, given the stances taken by the Council.

D. **What are the EP’s objectives and priorities in these negotiations?**

Your rapporteur takes the view that the Commission has submitted a rigorous, unambitious proposal, which, in the prevailing political climate, can be regarded as pragmatic and constructive. Nonetheless, the EP is seeking to enhance two aspects which already exist to some extent: **flexibility and classification.**

E. **What does flexibility mean within the FP?**

In introducing the notion of flexibility, your rapporteur is duty-bound to point out that:

(a) the period of application of the FP between 1988 and 1999 has amply demonstrated the difficulty, if not impossibility, of revising the ceilings for the various headings because of inflexibility and deadlock in the Council (in practice this means unanimity);

(b) the lack of revision has been neutralised (a) by raising the own resources ceiling, (b) as a result of the degree of budget rigour, accepted in the context of EMU, which is more severe than that applied in the Member States, and (c) because the subceilings for the headings have been relatively high, permitting some movement in expenditure;

(c) flexibility means that, in spite of the fact that the own resources ceiling is being maintained and the subceilings for the headings are relatively low, the budgetary authority has at its disposal certain amounts, over and above the ceilings for the various headings, which can be incorporated into the budget during the budgetary procedure.

F. **Is there less rigour because of flexibility?**

Flexibility is the essential complement rounding off a budgetary policy of rigour in that, when a new need emerges, appropriations can be marshalled.

There is even a direct connection between rigour and flexibility: more rigour, more flexibility; less rigour, less flexibility.

G. **What might flexibility actually mean in practice?**

The Commission has already made a number of proposals to introduce a measure of flexibility, i.e. **Flexibility for adjustment and/or revision of the FP**
Article 9 of the Commission proposal establishes a mechanism for moving “savings” between headings 3 and 4 up to a maximum of €100 m. This is a step in the right direction, provided that the text makes it clear that this is linked to the procedure under Article 203.

*Flexibility on the budgetary aspects of legislative co-decisions*

In its texts, the Commission proposes revision of the 1995 declaration on amounts in legislative decisions to give the budgetary authority greater discretion. The Commission has proposed a text (Article 32).

In both cases, the Commission proposals are a starting point - even if the text still has to be made more specific.

**H. Are these Commission proposals sufficient?**

Your rapporteur believes that the Commission proposals are not sufficient. As has already been amply explained, in order to continue with a policy of rigour the EP is seeking to introduce a particular type of flexibility with regard to the structure of the FP.

*Flexibility on the structure of the FP*

Several options could be envisaged but a preference has been expressed to maintain the present structure, with a separate heading for pre-accession, but with a new “reserve” heading - pre-allocated to headings 1, 3, 4 and 5.

Each year the budgetary authority should decide on [co-decision] the part of the reserve, if any, that has to be entered in the budget.

**I. What procedure can be used to marshal this reserve?**

Your rapporteur takes the view that such a reserve ought to be marshalled, on a proposal by the Commission, under a budgetary procedure.

The procedure for entering such a reserve in the budget ought to be laid down in the IIA. Your rapporteur believes that in keeping with the spirit of the new Interinstitutional Agreement, regardless of purpose (and classification), this reserve must be covered by the codecision procedure. If there is no codecision, it will not be entered in the budget.

Firstly this procedure ought to reassure the Council, which would be acknowledged as having greater influence concerning NCE, and, secondly, it creates for Parliament, up to a point, a right of codecision concerning CE.
J. **Are there alternatives to this new reserve heading?**

Your rapporteur takes the view that there are two possible alternatives:

(a) to set the ceilings for all headings as high as possible, with, accordingly, payment appropriations close to the ceiling of 1.27% of GNP;

(b) to reduce spending categories to two: CE and NCE, i.e. to go back to Article 203 of the Treaty. This solution maximises flexibility for the EP, but would usher in a period of considerable conflict surrounding the annual process of setting the maximum rate of increase (MRI) in NCE.

K. **Why has Article 203 the potential to usher in fresh conflict?**

Your rapporteur would point out that, prior to 1988, such conflict already existed; but it was worsened by the explosion in multiannual programmes (Structural Funds, codecision programmes, research), which accounts for the need for negotiations, each year, on exceeding the MRI.

L. **Where is the advantage for the Council in accepting this reserve?**

Your rapporteur takes the view that the proposal for the new reserve heading opens up the possibility of strengthening the spirit of codecision, in due course, with regard to the budget.

The Council straightaway realises two objectives:

→ It extends its influence over NCE. Since the introduction of this distinction in the Treaty, the proportion of the budget accounted for by NCE has increased from 10% to almost 50%, which, institutionally and politically, makes it difficult to maintain separate classifications. The EP proposal also seeks to create the testing ground for a new budgetary procedure which may be extended in the future to the entire budget.

→ A very rigorous financial framework is established, but with the possibility of going beyond the framework without each time having to make use of the revision procedure, which, though still in existence, has proved difficult to put into practice. It must not be thought that using the reserve is of benefit to the EP only: the Council, too, takes initiatives - often rightly so - the funding of which must be ensured (food aid in Russia being a typical case in point), and that will only be possible by means of the reserve and with the EP’s agreement.

M. **Is the inference that, without a reserve, there is no new FP?**

In your rapporteur’s view, creation of this reserve ought to be the EP’s central priority in the negotiations. However, it must not be forgotten that the negotiations have not yet commenced, the Presidency having being given no mandate; and, on the basis of the mandate given by the EP to the Committee on Budgets - and your rapporteur - for the time being, no Parliament policy has been adopted. A more specific Parliament policy will not be possible until the Council has made its own views known.
N. **Is creation of the reserve heading Parliament’s sole priority?**

In the light of the resolution of 4 December 1997, we must also cite:

- the creation of a separate heading for pre-accession aid (heading 7) (on this proposal there is now broad agreement shared by a majority of Council delegations);

- greater open-mindedness on classification.

Q. **Is Parliament seeking to resolve the problem of classification of expenditure in the IIA?**

No, but the agreement, which will be in force for seven years, must attempt to defuse all the potential sources of conflict, and classification is without doubt one such source.

The European Parliament is fully aware that the distinction between compulsory and non-compulsory expenditure is part of the Treaty. Parliament does not expect either to change the Treaty through the IIA or to gain unilateral influence over the so-called "CE" (compulsory expenditure). Nevertheless, Parliament maintains its interpretation that only the nature of the legislative act can establish the nature of expenditure.

The Committee on Budgets considers that the improvement and the extension of the ad hoc procedure to the whole budget could constitute real progress on the whole classification debate with the aim of developing more co-decision elements in the budgetary procedure.

As such the proposal to extend the ad hoc procedure for compulsory expenditure to non compulsory expenditure, as already put forward by the Commission (Annex III, B), seems to represent genuine progress on the classification issue.

This extension should be accompanied by an improvement in the procedure:

(a) the Council should, after its first reading, submit the request for "change" on non-compulsory expenditure (in the same way Parliament submits requests for "change" in the framework of agricultural and fisheries policy and the CFSP);

(b) that request should highlight the areas where the Council Presidency wants to concentrate its priorities in the legislative programme;

(c) the requests from the Council should be dealt with under a new procedure (trialogues and conciliation), which, to be as effective as possible should be concluded at least two weeks before the Council’s second reading, in order to allow the Council to incorporate the outcome of the conciliation into its reading. Parliament would do likewise at its second reading.

R. **Does this proposal not diminish Parliament’s prerogatives?**

In the rapporteur’s view, the point is to formalise and lay down procedural rules for an exercise in seeking consensus on the budget which, starting with the 1998 (and 1999) budget, has considerably developed.
Since 1988, Parliament has opted to seek agreement, and not confrontation, with the Council. The proposal to formalise these procedures might be criticised within the EP for fear of losing some of its NCE powers. Your rapporteur believes that if we wish to enhance the role of Parliament - its political maturity, its role as a legislative authority - new procedures must be developed in the course of implementing an Interinstitutional Agreement.

If the Council is able to seize this opportunity and apply it fairly and with respect for Parliament, this agreement would be a watershed event which, in the future, may lead to amendment of the Treaty.
Initial comments on the points left unfinalised by the Council

Interinstitutional Agreement - the Council’s position

1. In the documents submitted to the Vienna European Council of 8 December 1998, the Council presented a proposed text for the new IIA a comparison of which with the Commission proposal is set out in Working Document No 9 (which contains the items referred to below).

2. However, the Council acknowledges that a number of major problems remain unsettled in that it has not been able to secure any majority for defining a common position. With a view to pursuing the strategy of laying down a more precise Parliament position, so as to be able to commence negotiations, your rapporteur believes that it is helpful to have a debate within the Committee on Budgets which is focused on the most sensitive issues. To that end he is submitting comments on all the questions left unfinalised by the Council.

A Funding amounts and level of the own resources ceiling

3. Since there is currently no discussion on possibly going beyond the own resources ceiling, which for the time being remains 1.27% of GNP, the key issue for the Council, and for Parliament, is the aggregate level of the financial perspective headings. Your rapporteur considers that the basis taken by the Commission is the starting point, and any acceptance of a lower level must be tied to the introduction of a measure of flexibility (the scale of which must be in proportion to the extent to which ceilings are lowered), and a procedure for mobilising the appropriations concerned against the lines agreed to by the institutions during conciliation on 8 December 1998.

B Addressing the financial implications of enlargement

4. Under the Commission proposal, the FP table shows a margin, as of 2002, once the various headings have been aggregated. The rapporteur points out that, prior to this debate, the following two conditions must be met:

   (a) the ceilings for the headings must be high enough to guarantee the funding of the various existing policies;

   (b) an instrument providing flexibility - with a significant amount - must be clearly identified in the FP table.

C Impervious nature of the enlargement reserve (paragraph 7, first subparagraph, paragraph 18, third and fourth subparagraphs, and paragraph 21)

5. The definition of 'imperviousness' with regard to post-accession expenditure is not in line with the concept of available margins (contradicting the concept of 'heading') and would render meaningless the revision procedure provided for in Article 21. Your rapporteur is opposed to the introduction of this element of rigidity in the FP.
**D** Levels of the various headings and subheadings to be entered in Annexes I and II

6. Discussions within the Council have clearly not made sufficient progress to lay down the levels for the headings. Accordingly, the rapporteur wishes to spell out three aspects:

   (a) as long ago as December 1997, Parliament advocated the grouping together of pre-accession appropriations within a separate heading (heading 7);

   (b) the notion of creating subheadings and subceilings within the FP is contrary to the notion of flexibility championed by the EP;

   (c) the former notion was rejected by the EP as long ago as 1992 on the ground that its powers are diminished by the introduction of subceilings.

**E** Current/constant prices (paragraph 7, fourth subparagraph, paragraph 12, Annex I and Annex II)

7. Your rapporteur firmly believes that keeping the present constant-price mechanisms is the only possible way of having long-term planning without embarking on forecasting price movements and growth trends over so long a period as that proposed by the Commission.

**F** Heading 1: ceiling and scope of the agricultural guideline (paragraph 12(a), paragraph 28, and Annex V (rural development))

(a) Ceilings

8. With regard to this question, the rapporteur and the Committee on Budgets have already given their views at ample length: the agricultural guideline remains the expression of total agricultural expenditure allocation, including heading 1 as its chief component (but not the only one). There are several reasons for this:

   - budgetary rigour must apply to all headings; the ceiling for heading 1 must be based on expenditure reflecting genuine needs;

   - the widely endorsed notion of combing pre-accessing expenditure, including agricultural expenditure, within a separate heading is a further argument militating against entering all agricultural expenditure in heading 1.

(b) Scope

9. The scope of the agricultural guideline is a further problem, in particular as regards whether the agricultural guideline should also extend to agricultural expenditure currently covered by other headings.

10. Your rapporteur considers that this is a theoretical question and should be considered in a legislative rather than a budgetary context. From a budgetary perspective, funding is needed and can be financed. It must be the subject of financial planning.
11. If, however, there has to be an agricultural guideline - and the last ten years have proved that its value has been theoretical in nature and completely divorced from reality - it should appropriately cover all agricultural expenditure.

12. Your rapporteur would like to point out - even if he appears needlessly to repeat himself - that the nature of an item of expenditure cannot change to match the heading under which it is financed.

**G Heading 2: Status of structural operations (paragraph 8, fourth subparagraph, and paragraph 14) and predetermination of the deflator for the Structural Funds (paragraph 12, second subparagraph)**

13. The European Parliament has on a number of occasions advocated a spending target status for the Structural Funds. With regard to predetermining the deflator, your rapporteur takes the view that the amounts for the funds ought to be expressed in constant prices, as amounts are in the FP. At all events, these matters will have to be resolved through legislation, and this in turn will be reflected in the financial perspective.

**H Heading 6 - Phasing-out of the monetary reserve (paragraph 20(a))**

14. While acknowledging the validity of having reserves within the FP, your rapporteur considers that the monetary reserve, which is covered by the agricultural guideline, as defined in the decision on budgetary discipline, does not tally with budgetary reality. Rather than being abolished, this reserve could be included in [or turned into?] an agricultural reserve (in the broad sense of the term).

**I Heading 7: Possibility of transfers between subheadings without revision of the financial perspective (paragraph 7, third subparagraph)**

15. While heading 7 is to group together pre-accession expenditure, that expenditure is already protected, albeit without constituting a spending target. Each year, on the basis of needs, the budgetary authority will have to decide what constitutes spending capacity and sound management of the funds.

**L Classification of expenditure (Annex V)**

16. The Council's position, if there were a majority for the position indicated at present (see Annex V, Working Document 9), would constitute a major retrograde step unacceptable to the EP. The fact is that classification of an item of expenditure transferred from heading 2 and 3 to heading 1 cannot change simply because there has been a change of heading.

17. In other respects, Parliament's position has been borne out, i.e. classification depends on the nature of the act. The EP is willing to seek agreement with the Council on a line-by-line basis, as it was furthermore called upon to do by the Court of Justice in Judgment 41-95 of 7 December 1995.

18. Accordingly, your rapporteur is convinced that the Council and Parliament can strive to resolve this classification dispute in a more sophisticated conciliation procedure enabling both arms of the budgetary authority to strengthen those aspects where there is agreement (codecision).
rather than pointing up disputes. This is precisely the thrust of Parliament’s proposals to extend the ad hoc procedure to NCE.

**M Budget lines financed by earmarked revenue (paragraph 7, second subparagraph)**

19. The rapporteur has no objections to having this exemption, already provided for in Article 4 of the Financial Regulation, apply over and above ceilings.

**N Margins beneath the ceilings for the various headings (paragraph 8, third subparagraph)**

20. This provision was already contained in the other agreements, and the EP has interpreted it soundly for headings 3, 4 and 5 because it has always left margins the size of which depended on needs, and has never taken an inflexible stance. It would seem impossible to go further than the wording of the present agreement.

**O Voting procedure for making use of the margin for unforeseen expenditure (paragraph 17)**

21. This aspect was the subject of protracted discussions during conciliation on 24 November and 8 December. Parliament expects the Council to confirm the unilateral declaration of 8 December on application of the majority rules under Article 203.

**P Adjustment of ceilings by the Commission after 2006 in the absence of a financial perspective (paragraph 22)**

22. This clause, which incorporates Article 25 of the 1993 agreement, remains useful. The rapporteur supports the Commission text, which requires a political act of denunciation while safeguarding the EP’s rights to revert to applying Article 203.

**Q Factors to be taken into consideration by the Commission when submitting the preliminary draft budget (paragraph third indent)**

23. The Council seems to want to tack on an additional condition(1) to this paragraph, which, to the rapporteur’s mind, is pointless and even contrary to the spirit of the Treaties and the Financial Regulation. The budget must be adopted on the basis of needs; and so vague an additional ceiling could not be added. Rigour will result from the sense of responsibility felt by the institutions in their respective areas of competence.

**R Avoiding entering amounts in the budget in excess of what can be expended (paragraph 26)**

24. Beyond what the Council intends, the EP has consistently maintained that, where uncertainty surrounds a budget entry (e.g. concerning the EAGGF Guarantee Section), the amounts concerned ought to be entered in a reserve without calling on resources. If the Council were willing to apply amended Article 26 accordingly, the EP could accept this.

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(1) *the previous year’s budget and the need to ensure ex ante, a moderate rate of increase, particularly as far as payment appropriations are concerned*
S  Extending the conciliation procedure to non-compulsory expenditure (Annex III, point B.3(a))

25. Parliament takes a very open-minded stance on this and is willing to find an alternative wording to that proposed by the Commission. Along with flexibility, this is one of the key issues for the EP.
A proposal on the financial perspective

Rigour and solidarity. Caution and realism

1. Although the previous working documents have dealt with several aspects of the Interinstitutional Agreement (IIA) and the financial perspective, the Committee on Budgets has not yet begun discussing the amounts which ought to appear in the financial perspective. The intention of this working document is to prompt a discussion on certain points of relevance to this very matter.

2. The uncertainty surrounding the future course of the policies and financial amounts which influence the financial perspective is well known. Moreover, the data available raises grave doubts as to the whether the timetable for enlargement contained in Agenda 2000 can be respected. For these reasons, it is vital that reliable revision clauses be introduced, together with some kind of financial instrument to inject flexibility into the financial perspective.

3. Rigour and solidarity should be the two guiding principles of the decisions as to the amounts to be included in the financial perspective. Furthermore, we should not ignore the uncertainty in which we find ourselves, which calls for caution and realism.

4. Rigour has been the firm principle behind Parliament’s actions during the budgetary procedures. The two most recent budgets, as well as the figures contained in one of your rapporteur's working documents(1), show that the actual EU budget has remained well within the limits set by the current financial perspective. Your rapporteur believes that this principle should continue to be followed.

5. The Vienna European Council pointed out that, together with budgetary rigour, solidarity should constitute a guiding principle of the decisions taken on Agenda 2000, and indeed Parliament has consistently regarded solidarity as a guiding principle of the decisions it takes. In the matter which concerns us here, solidarity is expressed in two basic forms. The first, at internal level, is directed towards the most disadvantaged regions of the EU. The second, at external level, targets the applicant countries and poor countries in the rest of the world.

6. Uncertainty will be one of the most marked features of the budget in the immediate future, and is evident in two factors which will have a decisive influence on the eventual outcome, namely reform of the CAP (and the savings to the budget it may bring) and the timetable for, and financial needs of enlargement. The eventual outcome cannot be determined unless these two unknowns are quantified. Thus there is good reason to be sceptical about the Commission figures, although in the absence of more credible alternative forecasts, they must be accepted as a starting point.

7. With such great uncertainty on the horizon, all that can be done is to establish precautionary measures which will make it simpler to make adjustments should the actual situation differ appreciably from what has been decided, should new policies be adopted, or should existing policies undergo substantial modification.

(1) Annexes to working document No 7 of 5 May 1997 on quantitative aspects relating to the assessment of the operation of the IIAs, PE 222.030/Ann.
8. **Realism** ought to make our actions consistent with the current state of the EU. It is wrong to make savings just for the sake of it, despite the fact that some regard it as the most prudent economic option. Nor should we put off resolving today's problems until tomorrow. We would all stand to gain if all our economic operators - including those in the poorest regions and the CEECs - were to take maximum advantage of the economic upturn which EMU is apparently engendering.

The perspective, heading by heading

9. **Heading 1 - AGRICULTURE.** Uncertainty is at its most acute here, as Parliament underlined in its resolution of 4 December 1997, by making acceptance of the 1.27% ceiling conditional on the expectations as regards savings raised by the Commission in its proposal for CAP reform being met. Recently, the Court of Auditors stated that it 'considers that the proposed reform will not lead to any significant change in the development of CAP expenditure following the MacSharry reform' (1). In the Commission's defence, however, it should be remembered that, although critics of the most recent CAP reform warned that expenditure would exceed the guideline, the reality has proved very different. For that reason, we should give a vote of confidence to the expenditure forecasts presented by the Commission in Annex B of its proposal concerning the financial perspective(2). Expenditure in that annex is expressed in current prices.

10. Converting the said expenditure forecasts into 1999 prices, the figures under heading 1 are as follows:

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11. It is worth emphasising that the above figures are forecasts of real expenditure far below the ceiling established by the agricultural guideline, which would also cover the monetary reserve and pre-accession aid for agriculture. The remainder available beneath the ceiling set by the guideline should cover the needs of the CAP not provided for in these forecasts but should not be included within the financial perspective, in order to keep the latter more in line with real needs.

12. In drawing up its preliminary draft budget, the Commission will be able to increase the appropriations under heading 1 of the financial perspective, up to the ceiling established by the guideline, if it sees fit. The Council and Parliament will use their budgetary powers to sanction this change.

13. **Heading 2 - STRUCTURAL OPERATIONS.** It appears somewhat illogical that this heading alone should be subject to a reduction, particularly since solidarity constitutes one of the principles accepted by the Council and Parliament. From the point of view of solidarity, an acceptable proposal might involve combining a freeze on the appropriations under heading 2

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(2) COM(1998) 164 final
of the financial perspective at their 1999 level (not including the amounts transferred from previous years pursuant to the IIA in force) with the planned reduction in eligible areas and population. From the strict economic viewpoint, account should be taken of the fact that the resulting relative increase in assistance ought to help a larger number of regions achieve growth in their relative prosperity and thus become ineligible for assistance at an earlier stage. This would have the following effect on the financial perspective:

|---------------------------|------|------|------|------|------|------|------|------|

14. The total allocation for the period would amount to EUR 249,900 m, resulting in an increase in comparison with the Commission proposals of symbolic rather than real importance, since it would equate to little more than 4% over the entire seven-year period.

15. **Heading 3 - INTERNAL POLICIES.** This heading covers the majority of policies liable to undergo considerable quantitative changes in the future. Should the Council decide to translate its words into action, significant increases in funding would be required for policies in areas such as the fight against unemployment and the trans-European networks, even though, admittedly, the Member States would take on the lion's share of the budgetary effort. The same would apply were the environment or 'Europe of knowledge' policies expanded. In any event, as long as the lack of political will remains, the Commission proposals, under which this expenditure heading is to receive the largest percentage increase, will have to be accepted.

16. Despite the powerful arguments in favour of placing expenditure allocated to research under a separate heading or sub-heading, it seems inappropriate to do so for the time being. Funding for Community policies might be split into two large areas, covering internal and external expenditure respectively. The funds for the CAP and for structural policies in the first area have been dealt with separately, owing to their relatively large size and their special place within Community policies. As regards external expenditure, calls are currently being made to treat spending on pre-accession aid separately because of its symbolic value. At first glance, spending on research is inadequate in terms of its size, symbolism and importance. In any event, dividing up expenditure would reveal that a mere 35% of heading 3 appropriations are earmarked for the remainder of internal policies, a fact which, nonetheless, is surely not lost on those involved in drawing up those policies.

17. **Heading 4 - EXTERNAL ACTION.** In addition to pursuing its policies to assist those countries closest to it in geographical terms, the EU must focus more on other parts of the world whose need is greater still, whilst maintaining a presence in other areas which present major opportunities for the EU’s economy. Furthermore, the need to spend more on developing the CFSP cannot be ruled out, the preliminary step towards this being agreement with the Council. It would appear that the needs for the coming years could be met by the Commission proposals, which grant this heading the second largest percentage increase. If not, reaching agreement with the Council to release funds through the flexibility instrument should not pose too great a problem.

18. The climate of uncertainty enables it to be said that considerable additional resources could be allocated to existing external policies if, for instance, Russia and its former satellites set themselves on a course towards capitalist economic development requiring backing from
programmes which ought to work effectively after so many years of practice, or if the Union were to strengthen external policy of development aid for, and cooperation with regional integration groupings in other parts of the world.

19. The European Development Fund should be included in the Community budget and, by extension, in the financial perspective. However, it will not feature amongst the aspects dealt with in this working document, for the sake of greater clarity in the comparisons drawn here.

20. The other policies in headings 3 and 4 which might be developed further include the CFSP, defence and cooperation in matters of justice. Looking at the European Council acts with an air of optimism, we should not rule out the possibility that strengthening these policies will necessitate additional financial resources, in line with the now well-established principle that ‘new policies mean new resources’. That said, it is perhaps futile to engage in such forecasts at the present juncture.

21. **Heading 5 - ADMINISTRATION.** In the rapporteur’s view, it is crucial that medium-term staff policy be reconsidered and agreement reached on the institutions’ building policy, as a starting point for plans to purchase buildings. As matters stand, we can accept the figures presented by the Commission.

22. **Heading 6 - RESERVES.** The Commission proposal to reduce the emergency aid reserve ties in with experience and with the repeated suggestions made by Parliament to that effect in recent years. It would, however, be less appropriate to reduce and subsequently scrap the monetary reserve, which could continue to serve its original purpose and act also as an agricultural reserve. The result would be an instrument which would make it possible to react rapidly to potential imbalances in the forecasts for agricultural expenditure and which would be especially useful if heading 1 were to be reduced to a minimum.

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23. **Heading 7. PRE-ACCESSION AID.** It is worth reiterating here that in principle, pre-accession aid appears inadequate. A greater financial effort ought to be made if the genuine wish is to ensure that the applicant countries are as well prepared as possible for accession when it comes, especially if it is delayed. The funds provided for in the Commission proposal will only be adequate if take-up on the part of the applicant countries proves poor, an eventuality which cannot be ruled out. This assertion is indirectly borne out by the fact that the Commission itself is proposing that the same amounts earmarked for the 11 applicant countries for the period 2000-2002 should subsequently be made available each year to the five remaining countries scheduled to join in the second wave, which besides being the least developed, are most likely the worst placed to take up the said aid. Evidently, there is either a lack of funds for the first
period or an excess of funds for the second. Heading 7 should be allocated the following minimum funding:

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<td>1400</td>
<td>3120</td>
<td>3420</td>
<td>3840</td>
<td>4320</td>
<td>4850</td>
<td>5500</td>
<td>6240</td>
</tr>
<tr>
<td>Agricultural aid</td>
<td>0</td>
<td>520</td>
<td>570</td>
<td>650</td>
<td>750</td>
<td>850</td>
<td>1000</td>
<td>1150</td>
</tr>
<tr>
<td>Structural aid</td>
<td>0</td>
<td>1040</td>
<td>1150</td>
<td>1320</td>
<td>1520</td>
<td>1750</td>
<td>2000</td>
<td>2340</td>
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<tr>
<td>PHARE</td>
<td>1400</td>
<td>1560</td>
<td>1700</td>
<td>1870</td>
<td>2050</td>
<td>2250</td>
<td>2500</td>
<td>2750</td>
</tr>
</tbody>
</table>

24. Lastly, the size of the flexibility instrument approved by Parliament and the Council in December must be established. This instrument must be capable of confronting the mounting uncertainty set out above with regard to the policies under headings 3, 4, 5 and 7, with the exception of pre-accession agricultural aid, which would fall under the agricultural guideline. Its size must increase as time goes on, since the potential adjustments that may result from the budgetary forecasts may well increase towards the end of the period.

25. It should be stressed that the flexibility instrument must not be used to increase the size of the financial perspective indiscriminately by the back door, but rather as a means by which the budgetary authority can take a flexible approach to meeting the needs of the Union. The Council’s determination to arrive at as static and trimmed a financial perspective package as possible is unwarranted. The financial perspective is a planning instrument. It is wrong to confuse planning with freezing.

26. The table in Annex 1 incorporates the aspects of the financial perspective mentioned above and contains a proposal, under which the required size of the flexibility instrument would progress from 0.01% of GNP in the year 2000 to 0.08% in 2006.

27. The Interinstitutional Agreement should also include a mechanism for transferring small amounts between the various headings, thereby dealing with potential pressing needs. The mechanism outlined by the Commission in article 9 of its proposal could serve as a basis for discussion.

28. Lastly, the rapporteur wishes to draw attention to the proposal to create a ‘savings instrument’ designed to finance accession, which could be funded from the appropriations not implemented in a given year.

29. In short, three instruments could be created to tackle the existing uncertainty and potential needs which cannot be foreseen at present:
   a) a mechanism to effect small-scale transfers between headings to deal with temporary problems in covering the estimated needs;
   b) the flexibility instrument agreed on with the Council, which would serve to deal with new policies, decisions to expand existing policies substantially or major errors in calculating the resources required;
   c) a potential ‘savings instrument’ to make it easier to cope with the financial needs relating to accession.
30. The rapporteur wishes to point out that the level of funding of non-compulsory expenditure contained in the attached proposal on the financial perspective would be far exceeded as a result of the strict application of Article 203 of the EC Treaty, as can be seen in the increase in the budgets of some Member States in the current financial year.
### Financial perspective 2000-2006 - Rapporteur’s proposals

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. AGRICULTURE</strong></td>
<td>40 440</td>
<td>45 205</td>
<td>41 300</td>
<td>43 400</td>
<td>44 200</td>
<td>44 600</td>
<td>43 800</td>
<td>42 850</td>
<td>42 850</td>
</tr>
<tr>
<td><strong>2. STRUCTURAL OPERATIONS</strong></td>
<td>39 025</td>
<td>39 025</td>
<td>35 700</td>
<td>35 700</td>
<td>35 700</td>
<td>35 700</td>
<td>35 700</td>
<td>35 700</td>
<td>35 700</td>
</tr>
<tr>
<td><strong>3. INTERNAL POLICIES</strong></td>
<td>5 862</td>
<td>6 386</td>
<td>6 390</td>
<td>6 710</td>
<td>6 880</td>
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<td>7 230</td>
<td>7 410</td>
<td>7 600</td>
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<tr>
<td><strong>4. EXTERNAL ACTION</strong></td>
<td>5 908</td>
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<td>5 310</td>
<td>5 310</td>
<td>5 690</td>
<td>5 870</td>
<td>6 050</td>
<td>6 230</td>
<td>6 340</td>
</tr>
<tr>
<td><strong>5. ADMINISTRATION</strong></td>
<td>4 502</td>
<td>4 723</td>
<td>4 730</td>
<td>4 820</td>
<td>4 910</td>
<td>5 010</td>
<td>5 100</td>
<td>5 200</td>
<td>5 300</td>
</tr>
<tr>
<td><strong>6. RESERVES</strong></td>
<td>1 192</td>
<td>1 192</td>
<td>850</td>
<td>850</td>
<td>850</td>
<td>850</td>
<td>850</td>
<td>850</td>
<td>850</td>
</tr>
<tr>
<td><strong>7. ENLARGEMENT</strong></td>
<td>3 120</td>
<td>3 420</td>
<td>3 840</td>
<td>4 320</td>
<td>4 850</td>
<td>5 500</td>
<td>6 240</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL COMMITMENTS</strong></td>
<td>96 929</td>
<td>103 401</td>
<td>97 400</td>
<td>100 210</td>
<td>102 070</td>
<td>103 400</td>
<td>103 580</td>
<td>103 740</td>
<td>104 880</td>
</tr>
<tr>
<td><strong>TOTAL PAYMENTS</strong></td>
<td>85 537</td>
<td>95 993</td>
<td>89 608</td>
<td>92 193</td>
<td>93 904</td>
<td>95 128</td>
<td>95 294</td>
<td>95 441</td>
<td>96 490</td>
</tr>
</tbody>
</table>

- Commitment appropriations (% of GNP) 1.242% 1.218% 1.222% 1.214% 1.200% 1.173% 1.146% 1.131%
- Flexibility instrument (commitments) 0.01% 0.02% 0.04% 0.05% 0.06% 0.08% 0.08%
- Margin under commitment appropriations 0.093% 0.107% 0.093% 0.081% 0.085% 0.102% 0.109% 0.124%
- Commitment appropriations ceiling 1.335% 1.335% 1.335% 1.335% 1.335% 1.335% 1.335% 1.335%
- Payment appropriations (% of GNP) 1.10% 1.23% 1.12% 1.12% 1.12% 1.10% 1.08% 1.05% 1.04%
- Unforeseen margin 0.03% 0.03% 0.03% 0.03% 0.03% 0.03% 0.03% 0.03%
- Own resources margin 0.14% 0.04% 0.12% 0.12% 0.12% 0.14% 0.16% 0.19% 0.20%
- Own resources ceiling 1.27% 1.27% 1.27% 1.27% 1.27% 1.27% 1.27% 1.27% 1.27%
## 1. Basic Principles of the Agreement

<table>
<thead>
<tr>
<th>COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The purpose of this Interinstitutional Agreement is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters.</td>
<td>1. The purpose of this Interinstitutional Agreement is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters.</td>
</tr>
</tbody>
</table>

2. Budgetary discipline under this Agreement covers all expenditure. It is binding on all the institutions involved for as long as the Agreement is in force. | Unchanged |

3. This Agreement does not alter the respective budgetary powers of the various institutions as laid down in the Treaties. | Unchanged |

4. Without prejudice to Section II.C, **any amendment of this Agreement requires** the consent of all the institutions which are party to it. | 4. Any amendment to the provisions of this Agreement requires the consent of all the institutions which are party to it. |

### 4a. This Agreement consists of two parts:

(a) Part I relates to the definition and implementing provisions of the financial perspective 2000-2006 and will apply for the duration of that financial perspective;

(b) Part II relates to the improvement of interinstitutional cooperation during the budgetary procedure.

### 4b. (ex-para. 41) Whenever it considers it necessary and at all events at the same time as any proposal for a new financial perspective presented pursuant to paragraph 22, the Commission will present a report on the application of this Agreement and on the amendments which need to be made to it in the light of experience.

4a. This Agreement, the duration of which is not linked to that of the FP, consists of two parts:

[Council text unchanged]

4b. (ex-para. 41) Whenever it considers it necessary and at all events at the same time as the proposal for a new financial perspective presented pursuant to paragraph 22 is submitted, the Commission will present a report on the application of this Agreement and a proposal for amendments which need to be made to it in the light of experience.
I. BASIC PRINCIPLES OF THE AGREEMENT

<table>
<thead>
<tr>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>4c. <em>(ex para. 42.)</em> This Agreement enters into force on 1 January 2000. It repeals and replaces with effect from the same date:</td>
<td>[Council text unchanged]</td>
</tr>
<tr>
<td>- the Joint Declaration by the European Parliament, the Council and the Commission of 30 June 1982 on various measures to improve the budgetary procedure;</td>
<td>- The Joint Declaration by the European Parliament, the Council and the Commission of 4 March 1975 on the introduction of a conciliation procedure</td>
</tr>
<tr>
<td>- the Interinstitutional Agreement between the European Parliament, the Council and the Commission of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure;</td>
<td>[Council text unchanged]</td>
</tr>
<tr>
<td>- the Declaration by the European Parliament, the Council and the Commission of 6 March 1995 on the incorporation of financial provisions into legislative acts;</td>
<td></td>
</tr>
<tr>
<td>- the Joint Declaration of 12 December 1996 concerning the improvement of information to the budgetary authority on fisheries agreements;</td>
<td></td>
</tr>
<tr>
<td>- the Interinstitutional Agreement between the European Parliament, the Council and the European Commission of 17 July 1997 on provisions regarding financing of the common foreign and security policy;</td>
<td></td>
</tr>
</tbody>
</table>
### I. BASIC PRINCIPLES OF THE AGREEMENT

#### PART I  FINANCIAL PERSPECTIVE 2000-2006:
#### DEFINITION AND IMPLEMENTING PROVISIONS

A. Contents and nature of the financial perspective

5. The financial perspective 2000-2006, presented in Annex I, is an integral part of this Agreement. It constitutes the reference framework for interinstitutional budgetary discipline.

6. The financial perspective is intended to ensure that, in the medium term, Community expenditure, broken down by broad category, develops in an orderly manner and within the limits of the own resources assigned to the Community.

7. The financial perspective 2000-2006 establishes, for each of the years and for each heading or subheading, amounts of expenditure in terms of appropriations for commitments. Overall annual totals of expenditure are also shown in terms of both appropriations for commitments and appropriations for payments. Amounts available for accession shall be set aside in terms of appropriations for payments in an enlargement reserve to be used in accordance with paragraph 21. The financial perspective does not take account of budget items financed by earmarked revenue within the meaning of Article 4 of the Financial Regulation.

### THE COUNCIL’S PROPOSED AMENDMENTS

#### PART I  FINANCIAL PERSPECTIVE 2000-2006:
#### DEFINITION AND IMPLEMENTING PROVISIONS

A. Contents and nature of the financial perspective

5. Unchanged

6. Unchanged

7. The financial perspective 2000-2006 establishes, for each of the years and for each heading or subheading, amounts of expenditure in terms of appropriations for commitments. Overall annual totals of expenditure are also shown in terms of both appropriations for commitments and appropriations for payments. Amounts available for accession shall be set aside in terms of appropriations for payments in an enlargement reserve to be used in accordance with paragraph 21. The financial perspective does not take account of budget items financed by earmarked revenue within the meaning of Article 4 of the Financial Regulation.

### PARLIAMENT’S PROPOSED AMENDMENTS

[Council text unchanged]
## I. BASIC PRINCIPLES OF THE AGREEMENT

The financing of specific items of expenditure may not be moved from one ceiling to another, unless the financial perspective is revised.

All these amounts are expressed in 1999 prices, except for the monetary reserve, where the amounts are expressed in current prices.

Information relating to operations not included in the general budget of the European Communities and the foreseeable development of the various categories of Community own resources are set out, as an indication, in separate tables. This information is updated annually when the technical adjustment is made to the financial perspective.

The European Parliament, the Council and the Commission (the ‘institutions’) confirm the principles and mechanisms concerning the agricultural guideline. The Commission will present to the two arms of the budgetary authority, by no later than 1 July 2004, a report on the application of the agricultural guideline together, if appropriate, with proposals for revision of the method of calculating the guideline with effect from 2005.

<table>
<thead>
<tr>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The financing of specific items of expenditure may not be moved from one ceiling to another, unless the financial perspective is revised.</td>
<td>The financing of [...] expenditure for budget chapters may not be moved from one ceiling to another, unless the financial perspective is revised.</td>
</tr>
<tr>
<td>All these amounts are expressed in 1999 prices, except for the monetary reserve, where the amounts are expressed in current prices.</td>
<td>[Unchanged]</td>
</tr>
<tr>
<td>Information relating to operations not included in the general budget of the European Communities and the foreseeable development of the various categories of Community own resources are set out, as an indication, in separate tables. This information is updated annually when the technical adjustment is made to the financial perspective.</td>
<td>[Unchanged]</td>
</tr>
<tr>
<td>[subparagraph deleted.]</td>
<td>The European Parliament, the Council and the Commission (the ‘institutions’) confirm the principles and mechanisms concerning the agricultural guideline, which constitutes an expenditure ceiling for all agricultural expenditure, without reference to categories or classification. The Commission will present to the two arms of the budgetary authority, by no later than 1 July 2002, a report on the application of the agricultural guideline together, if appropriate, with proposals for revision of the method of calculating the guideline with effect from 2003.</td>
</tr>
<tr>
<td>I. BASIC PRINCIPLES OF THE AGREEMENT</td>
<td>THE COUNCIL’S PROPOSED AMENDMENTS</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>8. The institutions acknowledge that each of the absolute amounts shown in the financial perspective 2000-2006 represents an annual ceiling on Community expenditure. Without prejudice to Section II.C, they undertake to use their respective powers in such a way as to comply with the various annual expenditure ceilings during each budgetary procedure and when implementing the budget for the year concerned. <strong>In particular</strong> the two arms of the budgetary authority agree to accept the maximum rates of increase for non-compulsory expenditure deriving from the budgets established within the ceilings set by the financial perspective. For the purposes of sound financial management, the institutions will ensure as far as possible during the budgetary procedure and at the time of the budget’s adoption that margins are left available beneath the ceilings for the various headings so that, if necessary, additional appropriations can be entered in the course of the financial year without the financial perspective having first to be revised. Within the maximum rates of increase for non-compulsory expenditure specified in the <strong>second subparagraph</strong>, the European Parliament and the Council undertake to respect the allocations of commitment appropriations provided in the financial perspective for structural operations. The two arms of the budgetary authority also undertake to bear in mind the assessment of the possibilities for executing the budget made by the Commission in its preliminary drafts.</td>
<td>8. The institutions acknowledge that each of the absolute amounts shown in the financial perspective 2000-2006 represents an annual ceiling on Community expenditure. Without prejudice to Part I.C, they undertake to use their respective powers in such a way as to comply with the various annual expenditure ceilings during each budgetary procedure and when implementing the budget for the year concerned. The two arms of the budgetary authority agree to accept for the duration of the financial perspective 2000-2006 the maximum rates of increase for non-compulsory expenditure deriving from the budgets established within the ceilings set by the financial perspective. For the purposes of sound budgetary management, the institutions will ensure as far as possible during the budgetary procedure and at the time of the budget’s adoption that sufficient margins are left available beneath the ceilings for the various headings [...]. Within the maximum rates of increase for non-compulsory expenditure specified in the second subparagraph, the European Parliament and the Council undertake to respect the allocations of commitment appropriations provided in the financial perspective for structural operations. The two arms of the budgetary authority also undertake to bear in mind the assessment of the possibilities for executing the budget made by the Commission in its preliminary drafts.</td>
</tr>
</tbody>
</table>

For the purposes of sound budgetary management, the institutions will endeavour to ensure as far as possible during the budgetary procedure and at the time of the budget’s adoption that sufficient margins are left available beneath the ceilings for the various headings [...].

[Council text unchanged] |

The two arms of the budgetary authority also undertake to bear in mind the assessment of the possibilities for executing the budget made by the Commission in its preliminary drafts, and in the context of the execution of the current budget. The Commission shall present an execution report before each reading of the budget by the European Parliament and the Council and at all events before 15 September each year, where appropriate accompanied by a proposal for a global transfer. A triilogue meeting will be held at least 15 working days before Parliament’s vote at first reading. At that meeting, execution and any new Commission proposals shall be considered.
<table>
<thead>
<tr>
<th>1. BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL'S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT'S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. The budgetary authority may, during the budgetary procedure, approve appropriations in excess of the ceiling for heading 3 or 4 of the financial perspective up to a maximum of EUR 100 million, without revision of the financial perspective, provided that a margin of at least EUR 100 million more than this excess is left beneath the ceiling for the heading not concerned by the excess. This excess will be discussed during the conciliation procedure provided for in Annex III. A ceiling may not be exceeded for the same purpose in two consecutive years.</td>
<td>9. [ paragraph deleted ]</td>
<td>8a. The flexibility instrument which appears in the FP table annexed to this Agreement may be brought into use within the ceiling for headings 1 to 5 in accordance with the following procedure: During the budget procedure, and at the latest before the second reading of the Council, the two arms of the budgetary authority may decide, on the basis of the provisions of Article 203(9), subparagraph 5 of the EC Treaty, to use part of these appropriations in excess of the category ceilings, subject to agreement on the purpose of those appropriations. 9. The budgetary authority may, under the procedures laid down in Article 203 of the Treaty and during the budgetary procedure, approve appropriations in excess of the ceiling for heading 3 or 4 of the financial perspective up to a maximum of EUR 100 million, without revision of the financial perspective, provided that a margin of at least the amount of this excess is left beneath the ceiling for the headings not concerned by the excess. This excess will be discussed during the conciliation procedure provided for in Annex III. [...] On a proposal from the Commission the two arms of the budgetary authority may also agree by common accord, during the conciliation procedure provided for in Annex III, to enter in the budget commitment appropriations of up to EUR 500 million in excess of the financial perspective ceilings to cover clearly identified requirements of significant political importance, provided that a corresponding amount of commitment appropriations remained unused the previous year and the balance of the budget outturn and the overall balance from the previous year was at least the same amount.</td>
</tr>
</tbody>
</table>

On a proposal from the Commission the two arms of the budgetary authority may also agree, during the conciliation procedure provided for in Annex III, to enter in the budget commitment appropriations of up to EUR 500 million in excess of the financial perspective ceilings to cover clearly identified requirements of significant political importance, provided that a corresponding amount of commitment appropriations remained unused the previous year and the balance of the budget outturn and the overall balance from the previous year was at least the same amount.
<table>
<thead>
<tr>
<th></th>
<th>I. BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. A decision by the Council or joint decision by the European Parliament and the Council which involves exceeding the appropriations available in the budget or the allocations available in the financial perspective <strong>in accordance with paragraphs 8 and 9</strong> may not be implemented in financial terms until the budget has been amended and, if necessary, the financial perspective has been appropriately revised in accordance with the relevant procedure for each of these cases.</td>
<td>10. A decision by the Council or joint decision by the European Parliament and the Council which involves exceeding the appropriations available in the budget or the allocations available in the financial perspective in accordance with paragraph 8 may not be implemented in financial terms until the budget has been amended and, if necessary, the financial perspective has been appropriately revised in accordance with the relevant procedure for each of these cases.</td>
<td>10. A decision by the Council or joint decision by the European Parliament and the Council which involves exceeding the appropriations available in the budget or the allocations available in the financial perspective in accordance with paragraphs 8, 8a and 9 may not be implemented in financial terms until the budget has been amended and, if necessary, the financial perspective has been appropriately revised in accordance with the relevant procedure for each of these cases and in compliance with paragraphs 32 and 33 of this Agreement.</td>
<td></td>
</tr>
<tr>
<td>11. For each of the years covered by the financial perspective, the total appropriations for payments required, after annual adjustment and taking account of any other adjustments or revisions, must not be such as to produce a call-in rate for own resources that exceeds the ceiling in force for these resources.</td>
<td>If need be, the two arms of the budgetary authority will decide, acting on a proposal from the Commission and in accordance with the majority voting rules laid down in the fifth subparagraph of Article 203(9) of the Treaty, to lower the ceilings set in the financial perspective in order to ensure compliance with the ceiling on own resources.</td>
<td>If need be, the two arms of the budgetary authority will decide, acting on a proposal from the Commission and in accordance with the majority voting rules laid down in the fifth paragraph of Article 203(9) of the Treaty, to lower the ceilings set in the financial perspective in order to ensure compliance with the ceiling on own resources.</td>
<td></td>
</tr>
</tbody>
</table>

**B. Annual adjustments of the financial perspective**

**Technical adjustments**
<table>
<thead>
<tr>
<th>1. BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>12.</strong> Each year the Commission, acting ahead of the budgetary procedure for year ( n+1 ), will make the following technical adjustments to the financial perspective in line with movements in gross national product (GNP) and prices:</td>
<td></td>
<td><strong>12.</strong> Each year the Commission, acting ahead of the budgetary procedure for year ( n+1 ), will make the following technical adjustments to the financial perspective in line with movements in gross national product (GNP) and prices:</td>
</tr>
<tr>
<td>(a) calculation of the agricultural guideline, which represents the ceiling for heading 1 (Common agricultural policy);</td>
<td>(a) calculation of the agricultural guideline [...];</td>
<td><strong>(a) calculation of the agricultural guideline [...];</strong></td>
</tr>
</tbody>
</table>
| (b) revaluation, at year \( n+1 \) prices, of the ceilings for the other headings and subheadings and of the overall figures for appropriations for commitments and appropriations for payments, except in the case of the monetary reserve. | (b) [Unchanged] | **(b) [Unchanged]**
| The Commission will make these technical adjustments on the basis of the most recent economic data and forecasts available. **However, the technical adjustment of the ceiling for the “Structural Funds” subheading will be based on the overall deflator stipulated in the Structural Funds regulations for determining the programming of the corresponding operations. The index base against which the allocations for 2004 to 2006 are pegged will be reviewed, if necessary, by the Commission before 31 December 2003 on the basis of the most recent information available. There will be no *ex post* adjustment of the allocations for earlier years.** | The Commission will make these technical adjustments on the basis of the most recent economic data and forecasts available. However, the technical adjustment of the ceiling for the “Structural Funds” subheading will be based on the overall deflator stipulated in the Structural Funds regulations for determining the programming of the corresponding operations. The index base against which the allocations for 2004 to 2006 are pegged will be reviewed, if necessary, by the Commission before 31 December 2003 on the basis of the most recent information available. There will be no *ex post* adjustment of the allocations for earlier years. | **The Commission will make these technical adjustments on the basis of the most recent economic data and forecasts available. However, the technical adjustment of the ceiling for the “Structural Funds” subheading will be based on the overall deflator stipulated in the Structural Funds regulations for determining the programming of the corresponding operations. The index base against which the allocations for 2004 to 2006 are pegged will be reviewed, if necessary, by the Commission before 31 December 2003 on the basis of the most recent information available. [...]** |
### I. BASIC PRINCIPLES OF THE AGREEMENT

<table>
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<tr>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The results of such adjustments and the underlying economic forecasts will be communicated to the two arms of the budgetary authority.</td>
<td>Unchanged</td>
</tr>
<tr>
<td>No further technical adjustments will be made in respect of the year concerned, either during the year or as <em>ex post</em> corrections during subsequent years.</td>
<td></td>
</tr>
<tr>
<td><em>Adjustments connected with the conditions of implementation</em></td>
<td></td>
</tr>
<tr>
<td>13. When notifying the two arms of the budgetary authority of the technical adjustments to the financial perspective, the Commission will present any proposals for adjustments to the total appropriations for payments which it considers necessary, in the light of the conditions of implementation, to ensure an orderly progression in relation to the appropriations for commitments.</td>
<td>Unchanged</td>
</tr>
<tr>
<td>14. For the adjustment exercise in 2001 and in the event of delays in the adoption of the programmes for structural operations, the two arms of the budgetary authority undertake to authorise, on a proposal from the Commission, the transfer to subsequent years, in excess of the corresponding ceilings on expenditure, of the allocations not used in 2000.</td>
<td>Unchanged</td>
</tr>
<tr>
<td>15. The European Parliament and the Council will take decisions on these proposals before 1 May of year n, in accordance with the majority voting rules laid down in the fifth subparagraph of Article 203(9) of the Treaty.</td>
<td>15. The European Parliament and the Council will take decisions on these proposals before 1 May of year n, in accordance with the procedure laid down in the fifth subparagraph of Article 203(9) of the Treaty.</td>
</tr>
</tbody>
</table>

### C. Revision of the financial perspective

---

1 Should there be any significant delay in the adoption of the new rules for the Structural Funds, the possibility of re-entry in the budget could be extended to appropriations not used in the first two years of the financial perspective.
<table>
<thead>
<tr>
<th>I. BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
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<tbody>
<tr>
<td>16. In addition to the regular technical adjustments and adjustments in line with the conditions of implementation <strong>and without prejudice to paragraph 9</strong>, the financial perspective may be revised in compliance with the own resources ceiling, on a proposal from the Commission, if unforeseen measures have to be initiated.</td>
<td>16. In addition to the regular technical adjustments and adjustments in line with the conditions of implementation <strong>[...]</strong>, the financial perspective may be revised in compliance with the own resources ceiling, on a proposal from the Commission, if unforeseen measures have to be initiated.</td>
<td>16. In addition to the regular technical adjustments and adjustments in line with the conditions of implementation <strong>and without prejudice to paragraphs 9 and 8a</strong>, the financial perspective may be revised in compliance with the own resources ceiling, on a proposal from the Commission, if unforeseen measures have to be initiated.</td>
</tr>
<tr>
<td>17. As a general rule, any such proposal for revision must be presented and adopted before the start of the budgetary procedure for the year or the first of the years concerned. The decision to revise the financial perspective will be taken jointly by the two arms of the budgetary authority acting in accordance with the majority voting rules laid down in the fifth subparagraph of Article 203(9) of the Treaty.</td>
<td>17. As a general rule, any such proposal for revision must be presented and adopted before the start of the budgetary procedure for the year or the first of the years concerned. The decision to revise the financial perspective <strong>up to the limit of the margin for unforeseen expenditure</strong> will be taken jointly by the two arms of the budgetary authority acting in accordance with the <strong>procedure</strong> laid down in the fifth subparagraph of Article 203(9) of the Treaty. Any decision to revise the financial perspective beyond that margin will be taken jointly by the two arms of the budgetary authority, with the Council acting unanimously.</td>
<td>[The Commission text is preferable.]</td>
</tr>
</tbody>
</table>
### I. BASIC PRINCIPLES OF THE AGREEMENT

18. The institutions, acting on a proposal from the Commission, will examine the scope for reallocating expenditure between the programmes covered by the heading concerned by the revision, with particular reference to any expected underutilisation of appropriations.

The objective should be that a significant amount, in absolute terms and as a percentage of the new expenditure planned, should be within the existing ceiling for the heading.

The institutions will also examine the scope for offsetting raising the ceiling for one heading by lowering the ceiling for another.

They undertake, however, not to allow any revision of the compulsory expenditure in the financial perspective to lead to a reduction in the amount available for non-compulsory expenditure.

Any revision must maintain an appropriate relationship between commitments and payments.

### THE COUNCIL’S PROPOSED AMENDMENTS

18. The institutions ... will examine the scope for reallocating expenditure between the programmes covered by the heading concerned by the revision, with particular reference to any expected underutilisation of appropriations.

The objective should be that a significant amount, in absolute terms and as a percentage of the new expenditure planned, should be within the existing ceiling for the heading.

For headings 1 to 6, the institutions will also examine the scope for offsetting raising the ceiling for one of these heading by lowering the ceiling for another.

A revision of the ceilings for headings 1 to 6 may not be made by drawing on heading 7. A revision of the ceilings for headings 1 to 7 may not be made by drawing on the enlargement reserve containing amounts available for accession.

They undertake, however, not to allow any revision of the compulsory expenditure in the financial perspective to lead to a reduction in the amount available for non-compulsory expenditure.

Any revision must maintain an appropriate relationship between commitments and payments.

### PARLIAMENT’S PROPOSED AMENDMENTS

18. During each financial year, the institutions ... will examine the scope for reallocating expenditure between the programmes covered by the heading concerned by the revision, with particular reference to any expected underutilisation of appropriations.

To that end, the Commission will present an execution report before each reading of the budget by the European Parliament and the Council and at all events before 15 September each year, where appropriate accompanied by a proposal for a global transfer. A trialogue meeting will be held at least 15 working days before the European Parliament’s vote at first reading. At that meeting, execution and any new Commission proposals shall be considered.

The objective should be to ensure more effective use of resources on the basis of the political priorities adopted by the two arms of the budgetary authority.

The institutions will also examine the scope for offsetting raising the ceiling for one of these heading by lowering the ceiling for another.
<table>
<thead>
<tr>
<th>I.  BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>D. Consequences of the absence of a joint decision by the institutions on the adjustment to, or revision of, the financial perspective</td>
<td>19. If the institutions fail to reach a joint decision on any adjustment or revision of the financial perspective proposed by the Commission, the objectives set previously will, after the annual technical adjustment, continue to apply as the expenditure ceilings for the year in question, <strong>without prejudice to paragraph 9.</strong></td>
<td>19. If the institutions fail to reach a joint decision on any adjustment or revision of the financial perspective proposed by the Commission, the objectives set previously will, after the annual technical adjustment, continue to apply as the expenditure ceilings for the year in question, without prejudice to paragraphs 9 and 8a.</td>
</tr>
<tr>
<td>I. BASIC PRINCIPLES OF THE AGREEMENT</td>
<td>THE COUNCIL’S PROPOSED AMENDMENTS</td>
<td>PARLIAMENT’S PROPOSED AMENDMENTS</td>
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</tr>
<tr>
<td>E. Reserves</td>
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<td></td>
</tr>
<tr>
<td>20. The three reserves appearing in heading 6 of the financial perspective are entered in the general budget of the European Communities. The necessary resources will be called in only when these reserves are implemented.</td>
<td>20. The three reserves appearing in heading 6 of the financial perspective are entered in the general budget of the European Communities. The necessary resources will be called in only when these reserves are implemented.</td>
<td>20. The [...] reserves appearing in heading 6 of the financial perspective are entered in the general budget of the European Communities. The necessary resources will be called in only when these reserves are implemented.</td>
</tr>
<tr>
<td>(a) The monetary reserve is intended to cover, during the years <strong>2000 to 2002</strong>, the impact on agricultural budget expenditure of significant and unforeseen movements in the euro/US dollar parity in relation to the parity used in the budget;</td>
<td>(a) The monetary reserve is intended to cover, during the years 2000 to 2002, the impact on agricultural budget expenditure of significant and unforeseen movements in the euro/US dollar parity in relation to the parity used in the budget;</td>
<td>(a) The monetary reserve is intended to cover [...] the impact on agricultural budget expenditure of significant and unforeseen movements in the euro/US dollar parity in relation to the parity used in the budget, together with developments which have an impact on markets and, thereby, on the agricultural expenditure forecasts;</td>
</tr>
<tr>
<td>(b) the reserve for guaranteeing loans to non-member countries is intended to endow the budget headings which will be drawn on to constitute the Guarantee Fund and for any additional payments to be made should a debtor default;</td>
<td>(b) the reserve for guaranteeing loans to non-member countries is intended to endow the budget headings which will be drawn on to constitute the Guarantee Fund and for any additional payments to be made should a debtor default;</td>
<td></td>
</tr>
<tr>
<td>(c) the purpose of the emergency aid reserve is to provide a rapid response to the aid needs of non-member countries caused by events which could not be foreseen when the budget was established, first and foremost for humanitarian operations.</td>
<td>(c) the purpose of the emergency aid reserve is to provide a rapid response to the specific aid needs of non-member countries caused by events which could not be foreseen when the budget was established, first and foremost for humanitarian operations.</td>
<td>[Council text acceptable]</td>
</tr>
</tbody>
</table>

[Alternative text if the element of flexibility is not introduced] (d) the reserve earmarked for internal policies and external action is to be used to endow the relevant lines of headings 3 and 4 should requirements exceed the appropriations entered in the budget;
<table>
<thead>
<tr>
<th>I. BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A call may be made on the emergency aid reserve in such circumstances even before the appropriations in the relevant operational items covered by heading 4 have been fully used, where the programming of expenditure from these items suggests that they will be used in full and provided that needs to be covered exceed EUR 15 million.</td>
<td>[subparagraph deleted]</td>
<td>A call may be made on the emergency aid reserve in such circumstances even before the appropriations in the relevant operational items covered by heading 4 have been fully used, where the programming of expenditure from these items suggests that they will be used in full [...].</td>
</tr>
<tr>
<td>When it considers that one of these reserves needs to be called on, the Commission will present a proposal for an appropriate transfer to the two arms of the budgetary authority.</td>
<td>When it considers that one of these reserves needs to be called on, the Commission will present a proposal for an appropriate transfer to the two arms of the budgetary authority.</td>
<td>[unchanged]</td>
</tr>
<tr>
<td>Any Commission proposal to draw on the reserve for emergency aid must, however, be preceded by an examination of the scope for reallocating appropriations.</td>
<td>Any Commission proposal to draw on the reserve for emergency aid must, however, be preceded by an examination of the scope for reallocating appropriations.</td>
<td>[Council text acceptable]</td>
</tr>
<tr>
<td>At the same time as it presents its proposal for a transfer, the Commission will initiate a trialogue procedure, if necessary in a simplified form, to secure the agreement of the two arms of the budgetary authority on the need to use the reserve and on the amount required.</td>
<td>At the same time as it presents its proposal for a transfer, the Commission will initiate a trialogue procedure, if necessary in a simplified form, to secure the agreement of the two arms of the budgetary authority on the need to use the reserve and on the amount required.</td>
<td></td>
</tr>
<tr>
<td>If the Commission’s proposal fails to secure the agreement of the two arms of the budgetary authority, and if the European Parliament and the Council are unable to agree on a common position, they will refrain from taking a decision on the Commission’s proposal for a transfer.</td>
<td>If the Commission’s proposal fails to secure the agreement of the two arms of the budgetary authority, and if the European Parliament and the Council are unable to agree on a common position, they will refrain from taking a decision on the Commission’s proposal for a transfer.</td>
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</table>
### I. BASIC PRINCIPLES OF THE AGREEMENT

<table>
<thead>
<tr>
<th><strong>F. Adjustment of the financial perspective upon enlargement</strong></th>
<th><strong>THE COUNCIL’S PROPOSED AMENDMENTS</strong></th>
<th><strong>PARLIAMENT’S PROPOSED AMENDMENTS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>21. Where the Community is enlarged to include new Member States during the period covered by the financial perspective, the institutions, acting on a proposal from the Commission, will adjust the financial perspective to take account of the requirements of the enlarged Community. The table in Annex II gives an estimate of these requirements; this estimate in no way prejudges the accession negotiations with the applicant countries. The additional requirements will be covered by the available amounts set aside for this purpose in the financial perspective and, if necessary, by the margin beneath the own resources ceiling for the enlarged Community.</td>
<td>F. Adjustment of the financial perspective upon enlargement</td>
<td>F. Revision of the financial perspective upon enlargement</td>
</tr>
</tbody>
</table>

### F. Adjustment of the financial perspective upon enlargement

21. Where the Community is enlarged to include new Member States during the period covered by the financial perspective, the European Parliament and the Council, acting on a proposal from the Commission and in accordance with the procedure laid down in the fifth subparagraph of Article 203(9), will jointly adjust the financial perspective to take account of the requirements of expenditure in the new Member States. The adjustment to the relevant headings, where required, will be based on the maximum amounts for expenditure and the resources available as indicated in the Table in Annex II. The table in Annex II in no way prejudges the outcome of the accession negotiations with the applicant countries. The maximum amounts for expenditure will be covered by the enlargement reserve entered in the financial perspective and, if necessary, by part of the increase in own resources resulting from growth in Union GNP as a direct consequence of enlargement.

### F. Revision of the financial perspective upon enlargement

21. Where the Community is enlarged to include new Member States during the period covered by the financial perspective, the European Parliament and the Council, acting on a proposal from the Commission and in accordance with the procedure laid down in the fifth subparagraph of Article 203(9), will carry out a global revision of the financial perspective to take account of the requirements of the enlarged Community and to evaluate all the data on which the financial perspective is based, namely the reform of agricultural policy and structural policies and the actual growth rate. The table in Annex II gives an indicative estimate of the specific requirements connected with enlargement; this estimate in no way prejudges the accession negotiations with the applicant countries. The additional requirements will be covered by the available amounts set aside for this purpose in the financial perspective and, if necessary, by the margin beneath the own resources ceiling for the enlarged Community, or, alternatively, by a proposal for a decision on own resources.

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(1) Paragraph 21 as drafted, in conjunction with paragraphs 7(1) and 18 (2) and (3), is the technical transposition into legal language of the agreement reached at the General Affairs Council on 5 October that the alternative presentation of the financial perspective described in the Annex to document 11555/98 would constitute the basis for further work to ringfence pre-accession and enlargement-related expenditure. However, the fact that the assessment and handling of the financial consequences of enlargement are issues still under consideration (cf. Section A, I, (a) on page 2 of this report) means, for certain delegations, that paragraph 21 may have to be reviewed.

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### I. BASIC PRINCIPLES OF THE AGREEMENT

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<tr>
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<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
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<tbody>
<tr>
<td>22. By 1 July 2005, the Commission will present proposals for a new medium-term financial perspective.</td>
<td>22. By 1 July 2005, the Commission will present proposals for a new medium-term financial perspective.</td>
<td>If no agreement is concluded on a new financial perspective, and unless the existing financial perspective is expressly denounced by one of the parties to this Agreement(1), the ceilings for the last year covered by the existing financial perspective will be adjusted in accordance with paragraph 12 of this Agreement by applying to these amounts the average rate of increase observed over the preceding period, excluding any adjustments made to take account of enlargement of the Community. This rate of increase may not, however, exceed the rate of growth of Community GNP. Without prejudice to paragraph 12(a), the annual ceiling for any heading may not be lower, in constant prices, than the level set in the current financial perspective for 2006. [Council text acceptable]</td>
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<td></td>
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<td>[paragraph deleted]</td>
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</tbody>
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(1) The Council will take a separate decision in which it will indicate the procedure it will follow in order to denounce the financial perspective (i.e., if it finds that no qualified majority exists to extend its validity). See statement No. 9 in doc. 9071/93, page 8.
### I. BASIC PRINCIPLES OF THE AGREEMENT

<table>
<thead>
<tr>
<th>III. IMPROVEMENT OF INTERINSTITUTIONAL COLLABORATION DURING THE BUDGETARY PROCEDURE</th>
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</thead>
<tbody>
<tr>
<td>A. The interinstitutional collaboration procedure</td>
</tr>
<tr>
<td>B. Establishment of the budget</td>
</tr>
</tbody>
</table>

#### PART II IMPROVEMENT OF INTERINSTITUTIONAL COLLABORATION DURING THE BUDGETARY PROCEDURE

**A. The interinstitutional collaboration procedure**

24. The institutions agree to set up a procedure for interinstitutional collaboration in budgetary matters. The details of this collaboration are set out in Annex III, which forms an integral part of this Agreement.

25. The Commission will present each year, within the limits of the financial perspective, a preliminary draft budget based on the Community’s actual financing requirements.

- the capacity for utilising appropriations, endeavouring to maintain a strict relationship between appropriations for commitments and appropriations for payments,
- the possibilities for starting up new policies or continuing multiannual operations which are coming to an end, after assessing whether it will be possible to secure a proper legal basis,
- the previous year’s budget and the need to ensure an ex ante moderate rate of increase, particularly as far as payment appropriations are concerned.

26. The institutions will, as far as possible, avoid entering items in the budget carrying insignificant amounts of expenditure on operations.

27. The institutions agree to treat food aid expenditure in accordance with the rules laid down in Annex IV, which forms an integral part of this Agreement.

| THE COUNCIL’S PROPOSED AMENDMENTS |
| PARLIAMENT’S PROPOSED AMENDMENTS |

Unchanged

25. The Commission will present each year a preliminary draft budget based on the Community’s actual financing requirements.

- the capacity for utilising appropriations, endeavouring to maintain a strict relationship between appropriations for commitments and appropriations for payments,
- the possibilities for starting up new policies or continuing multiannual operations which are coming to an end, after assessing whether it will be possible to secure a basic act,
- the previous year’s budget and the need to ensure an ex ante moderate rate of increase, particularly as far as payment appropriations are concerned.

26. The institutions will, as far as possible, avoid entering items in the budget carrying insignificant amounts of expenditure on operations.

27. The institutions agree to treat food aid expenditure in accordance with the rules laid down in Annex IV, which forms an integral part of this Agreement.

[Unchanged]

[Delete]
### I. BASIC PRINCIPLES OF THE AGREEMENT

#### C. Classification of expenditure

<table>
<thead>
<tr>
<th></th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
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<tbody>
<tr>
<td>28. The institutions consider compulsory expenditure to be such expenditure as the budgetary authority is obliged to enter in the budget to enable the Community to meet its obligations, both internally and externally, under the Treaties and acts adopted in accordance therewith. The institutions undertake to provide appropriations in the budget to honour the Communities’ internal and external legal obligations and policy commitments, with due regard for budgetary discipline.</td>
<td>28. The institutions consider compulsory expenditure to be such expenditure as the budgetary authority is obliged to enter in the budget to enable the Union and the Community to meet its obligations, both internally and externally, under the Treaties and acts adopted in accordance therewith. The institutions undertake to provide appropriations in the budget to honour the Union’s and the Communities’ internal and external legal obligations and policy commitments, with due regard for budgetary discipline, and in accordance with the agreed classification of expenditure set out in Annex V which forms an integral part of this Agreement.</td>
<td>28. The institutions consider compulsory expenditure to be expenditure deriving from Treaty obligations or from instruments adopted in accordance with the Treaty which create obligations which the Union must meet. [Council text acceptable]</td>
</tr>
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</table>

[Council text acceptable]
<table>
<thead>
<tr>
<th>I.  BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
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<tbody>
<tr>
<td>29. The institutions agree on the classification of expenditure as set out in Annex V, which forms an integral part of this Agreement.</td>
<td>[contents of this paragraph included in paragraph 28]</td>
<td></td>
</tr>
<tr>
<td>30. The preliminary draft budget shall contain a reasoned proposal for the classification of each new budget item and each item whose legal basis has been amended.</td>
<td>30. The preliminary draft budget shall contain a reasoned proposal for the classification of each new budget item and each item whose legal basis has been amended.</td>
<td>[Council text acceptable]</td>
</tr>
<tr>
<td>These items and the expenditure relating to them will be classified by agreement between the two arms of the budgetary authority. This agreement will be reached at the latest during the conciliation procedure provided for in Annex III. Should the European Parliament and the Council fail to agree on the classification of the budget item concerned, the classification proposed in the preliminary draft budget will stand approved.</td>
<td>If one of the two institutions which make up the budgetary authority is unable to accept the Commission’s proposal for classification, the disagreement shall be referred to a meeting of the Presidents of the Parliament, of the Council and of the Commission, which shall undertake the chairmanship. The three Presidents shall endeavour to resolve any disagreements before the draft budget is established. The Chairman of the trialogue shall report to the inter-institutional conciliation meeting which precedes the first reading of the Council and shall, if necessary, speak in Council and Parliament debates on the first reading.</td>
<td>[Council text acceptable]</td>
</tr>
<tr>
<td>The agreed classification, which is considered provisional if the basic act has not yet been adopted, may be reviewed by the same procedure in the light of the basic act when it is adopted.</td>
<td>The agreed classification, which is considered provisional if the basic act has not yet been adopted, may be reviewed by mutual agreement in the light of the basic act when it is adopted.</td>
<td>The agreed classification, which is considered provisional if the basic act has not yet been adopted, may be reviewed, [...] in the light of the basic act when it is adopted, during the budget procedure.</td>
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<td>I. BASIC PRINCIPLES OF THE AGREEMENT</td>
<td>THE COUNCIL’S PROPOSED AMENDMENTS</td>
<td>PARLIAMENT’S PROPOSED AMENDMENTS</td>
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</tr>
<tr>
<td>D. Maximum rate of increase of non-compulsory expenditure</td>
<td>D. Maximum rate of increase of non-compulsory expenditure in the absence of a financial perspective</td>
<td>Delete the whole paragraph.  Should it prove necessary to retain the paragraph, the following amendments could be inserted:</td>
</tr>
</tbody>
</table>
### I. BASIC PRINCIPLES OF THE AGREEMENT

31. Without prejudice to paragraph 8 the institutions agree on the following provisions:

(a) Parliament’s margin for manoeuvre - which is to be at least half the maximum rate - applies as from the draft budget established by the Council at first reading, including any letters of amendment. The maximum rate is to be observed in respect of the annual budget, including amending and/or supplementary budgets, if any. Without prejudice to the setting of a new rate, any portion of the maximum rate which has not been utilised will remain available for use and may be used when draft amending and/or supplementary budgets are considered.

(b) If it appears in the course of the budgetary procedure that completion of the procedure might require agreement on setting a new rate of increase for non-compulsory expenditure to apply to payment appropriations and/or a new rate to apply to commitment appropriations (the latter rate may be at a different level from the former), the institutions will endeavour to secure an agreement between the two arms of the budgetary authority by the conciliation procedure provided for in Annex III.

If, however, agreement has not been reached by 31 December, the two arms of the budgetary authority undertake to continue their efforts to complete the budgetary procedure so that the budget can be adopted by the end of January.

<table>
<thead>
<tr>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
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</table>
| 31.                                | 31. In accordance with paragraph 8 of this Agreement, the two arms of the budgetary authority agree to accept, for the duration of the 2000-2000 financial perspective, the maximum rates of increase for non-compulsory expenditure deriving from budgets established within the ceilings set by the financial perspective. The rest is deleted [or amended as follows]

[...] Should the financial perspective not enter into force, the institutions agree on the following provisions:

(a) Parliament’s margin for manoeuvre […] is to be at least half the maximum rate which applies as from the draft budget established by the Council at first reading, including any letters of amendment adopted by the Council at its first reading. Should such letters of amendment be submitted late (Article 14 of the FP), their effect on the MRI will be assessed after their adoption and, where appropriate, the two arms of the budgetary authority shall set a new rate by common accord. The maximum rate shall be established at the time of the formal adoption of the annual budget, including amending and/or supplementary budgets, if any. Without prejudice to the setting of a new rate, any portion of the maximum rate which has not been utilised will remain available for use and may be used when draft amending and/or supplementary budgets are considered. | [...] |
## I. BASIC PRINCIPLES OF THE AGREEMENT

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<tbody>
<tr>
<td><strong>E. Incorporation of financial provisions in legislative instruments</strong></td>
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</tr>
<tr>
<td>32. Legislative instruments concerning multiannual programmes adopted under the codecision procedure may contain a provision in which the legislative authority lays down the financial framework for the programme for its entire duration.</td>
<td>32. Legislative instruments concerning multiannual programmes adopted under the codecision procedure shall contain a provision in which the legislative authority lays down the financial framework for the programme for its entire duration.</td>
</tr>
<tr>
<td>That amount will constitute a special reference for the budgetary authority during the annual budgetary procedure. The budgetary authority may, however, agree to depart from the amount under the conciliation procedure provided for in Annex III.</td>
<td>That amount will constitute the principal point of reference for the budgetary authority during the annual budgetary procedure.</td>
</tr>
<tr>
<td>The Commission, when establishing the preliminary draft budget, and, failing agreement between the two arms of the budgetary authority on an amount different from the reference amount set in the legislative instrument, the institutions of last resort undertake not to depart from this amount by more than 10% either upwards or downwards.</td>
<td>Should an arm of the budgetary authority consider there to be specific and duly justified reasons for departing from the reference amount set in the legislative instrument adopted under the codecision procedure the matter shall be considered under the conciliation procedure provided for in Annex III [with a view to reaching agreement on a new amount]. As a last resort, the budgetary authority undertakes not to depart from this amount by more than 15% either upwards or downwards.</td>
</tr>
<tr>
<td>[subparagraph deleted ]</td>
<td>Each year, the Commission shall report to the budgetary authority on the programme’s state of execution in accounting terms.</td>
</tr>
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</table>
### I. BASIC PRINCIPLES OF THE AGREEMENT

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<tbody>
<tr>
<td>33. Legislative instruments concerning multiannual programmes not subject to the codecision procedure will not contain an ‘amount deemed necessary’. Should the Council wish to include a financial reference, this will be taken as illustrating the will of the legislative authority and will not affect the powers of the budgetary authority as defined by the Treaty. This provision will be mentioned in all instruments which include such a financial reference. If the amount concerned has been the subject of an agreement pursuant to the conciliation procedure provided for in the Joint Declaration of 4 March 1975, it will be considered a reference amount within the meaning of paragraph 32.</td>
<td>33. Legislative instruments concerning multiannual programmes not subject to the codecision procedure will not contain an ‘amount deemed necessary’. Should the Council wish to include a financial reference, this will be taken as illustrating the will of the legislative authority and will not affect the powers of the budgetary authority as defined by the Treaty. This provision will be mentioned in all instruments which include such a financial reference. If the amount concerned has been the subject of an agreement pursuant to the conciliation procedure provided for in the Joint Declaration of 4 March 1975, it will be considered a reference amount within the meaning of paragraph 32.</td>
</tr>
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</table>

34. The financial statement provided for in Article 3 of the Financial Regulation will reflect in financial terms the objectives of the proposed programme and include a schedule covering the duration of the programme. It will be revised, where necessary, when the preliminary draft budget is drawn up, taking account of the extent of implementation of the programme. The revised statement will be forwarded to the budgetary authority together with the preliminary draft budget. | Unchanged | The revised statement will be forwarded to the budgetary authority when the preliminary draft budget is presented and after the adoption of the budget. |

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### I. BASIC PRINCIPLES OF THE AGREEMENT

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<tbody>
<tr>
<td>F. Legal bases</td>
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</table>
| 35. As a rule the appropriations entered in the budget may not be used for any Community action if a legal basis has not first been adopted. However, the following may be used without a legal basis:  
- appropriations for autonomous operations conducted by the Commission under the powers conferred on it by the Treaty;  
- appropriations entered for items allocated less than EUR 5 million, provided they comply with the principle of budgetary specification;  
- appropriations for preparatory operations and pilot projects with a lifespan of not more than two years. If, after these two years, the Commission presents to the legislative authority a proposal for a basic act, the appropriations concerned may be used during an additional year on preparatory operations or pilot projects. However, for two categories of specific preparatory operations, the institutions agree to apply the following special arrangements:  
(a) when one programme takes over from another in a given area, the Commission may, without a legal basis, use appropriations to implement trial operations for a year in order to test innovatory aspects for this programme at the same time as the initiation of the legislative procedure for its adoption;  
(b) “test-bed items”, which finance operations preparing the ground for the drafting of legislation to give effect to certain Community policies for which the instruments are constantly being renewed and adapted, do not require a legal basis. | 35. Under the system of the Treaty, implementation of appropriations entered in the budget for any Community action requires the prior adoption of a basic act. A “basic act” is an act of secondary legislation which provides a legal basis for the Community action and for the implementation of the corresponding expenditure entered in the budget. Such an act must take the form of a Regulation, a Directive or a Decision (Entscheidung or Beschluss). Recommendations and Opinions do not constitute basic acts, nor do Resolutions or Declarations. | Unchanged |
36. However, the following may be implemented without a basic act as long as the actions which they are intended to finance fall within the competence of the Community:

(a)(i) appropriations for pilot schemes of an experimental nature aimed at testing the feasibility of an action and its usefulness. The relevant commitment appropriations may be entered in the budget for only two financial years. Their total amount may not exceed EUR 32 million;
(ii) appropriations relating to preparatory actions intended to prepare proposals with a view to the adoption of future Community actions. The preparatory actions must follow a coherent approach and may take various forms. The relevant commitment appropriations may be entered in the budget for only three financial years at most. The legislative procedure should be concluded before the end of the third financial year. During the course of the legislative procedure, the commitment of appropriations must correspond to the particular features of the preparatory action as regards the activities envisaged, the aims pursued and the persons benefited. Consequently, the means implemented cannot correspond in volume to those envisaged for financing the definitive action itself. The total amount of the new headings concerned may not exceed EUR 30 million per financial year and the total amount of the appropriations actually committed in respect of the preparatory actions may not exceed EUR 75 million.

<table>
<thead>
<tr>
<th>I. BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>36. However, the following may be implemented without a basic act as long as the actions which they are intended to finance fall within the competence of the Community: (a)(i) appropriations for pilot schemes of an experimental nature aimed at testing the feasibility of an action and its usefulness. The relevant commitment appropriations may be entered in the budget for only two financial years. Their total amount may not exceed EUR 32 million; (ii) appropriations relating to preparatory actions intended to prepare proposals with a view to the adoption of future Community actions. The preparatory actions must follow a coherent approach and may take various forms. The relevant commitment appropriations may be entered in the budget for only three financial years at most. The legislative procedure should be concluded before the end of the third financial year. During the course of the legislative procedure, the commitment of appropriations must correspond to the particular features of the preparatory action as regards the activities envisaged, the aims pursued and the persons benefited. Consequently, the means implemented cannot correspond in volume to those envisaged for financing the definitive action itself. The total amount of the new headings concerned may not exceed EUR 30 million per financial year and the total amount of the appropriations actually committed in respect of the preparatory actions may not exceed EUR 75 million.</td>
<td>Unchanged</td>
</tr>
</tbody>
</table>
## I. BASIC PRINCIPLES OF THE AGREEMENT

<table>
<thead>
<tr>
<th>THE COUNCIL’S PROPOSED AMENDMENTS</th>
<th>PARLIAMENT’S PROPOSED AMENDMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>When the preliminary draft budget (PDB) is presented, the Commission will submit a report on the actions referred to in points (i) and (ii) which will also cover the objective of the action, an assessment of results and the follow-up envisaged;</td>
<td></td>
</tr>
<tr>
<td>(b) appropriations concerning actions of a specific, or even indefinite, nature carried out by the Commission by virtue of tasks resulting from its prerogatives at institutional level, other than its right of legislative initiative as referred to in point (a), and specific powers directly conferred upon it by the Treaty. A list is contained in Annex VI. The list may be supplemented, in the presentation of the PDB, with an indication of the Articles in question and the amounts concerned;</td>
<td></td>
</tr>
<tr>
<td>(c) appropriations intended for the operation of each institution under its administrative autonomy;</td>
<td></td>
</tr>
</tbody>
</table>

### G. Expenditure relating to fisheries agreements

36. The institutions agree to finance expenditure on fisheries agreements in accordance with the arrangements set out in Annex VI, which forms an integral part of this Agreement.

37. The institutions agree to finance expenditure on fisheries agreements in accordance with the arrangements set out in Annex VII, which forms an integral part of this Agreement.
### I. BASIC PRINCIPLES OF THE AGREEMENT

#### H. Financing of the common foreign and security policy

37. For the CFSP expenditure charged to the general budget in accordance with Article [J.18] of the Treaty, the institutions will endeavour, in the conciliation procedure provided for in Annex III and on the basis of the preliminary draft budget established by the Commission, to secure each year agreement on the amount of the operational expenditure to be charged to the Community budget and on the distribution of this amount between the articles of the CFSP budget chapter suggested in the fourth subparagraph. In the absence of agreement, it is understood that the European Parliament and the Council will enter in the budget the amount contained in the previous budget or the amount proposed in the preliminary draft budget, whichever is the lower.

   The total amount of operational CFSP expenditure will be entered entirely in one (CFSP) budget chapter, distributed between the articles of this chapter as suggested in the fourth subparagraph. This amount is to cover the real predictable needs and a reasonable margin for unforeseen actions. No funds will be entered in a reserve. Each article covers common strategies or joint actions already adopted, measures which are foreseen but not yet adopted and all future - i.e. unforeseen - actions to be adopted by the Council during the financial year concerned.

   In conformity with the Financial Regulation, the Commission, on the basis of a Council decision, has the authority, within the framework of a CFSP action, to autonomously transfer appropriations between articles within one budget chapter, i.e. the CFSP allocation; the flexibility deemed necessary for speedy implementation of CFSP actions will accordingly be assured. In the event of the amount of the CFSP budget during the financial year being insufficient to cover the necessary expenses, the European Parliament and the Council will seek a solution as a matter of urgency, on a proposal from the Commission.

38. For the CFSP expenditure charged to the general budget in accordance with Article 28 of the Treaty on European Union, the institutions will endeavour, in the conciliation procedure provided for in Annex III and on the basis of the preliminary draft budget established by the Commission, to secure each year agreement on the amount of the operational expenditure to be charged to the Community budget and on the distribution of this amount between the articles of the CFSP budget chapter suggested in the fourth subparagraph. In the absence of agreement, it is understood that the European Parliament and the Council will enter in the budget the amount contained in the previous budget or the amount proposed in the preliminary draft budget, whichever is the lower.

   The total amount of operational CFSP expenditure will be entered entirely in one (CFSP) budget chapter, distributed between the articles of this chapter as suggested in the fourth subparagraph. This amount is to cover the real predictable needs and a reasonable margin for unforeseen actions. No funds will be entered in a reserve. Each article covers common strategies or joint actions already adopted, measures which are foreseen but not yet adopted and all future - i.e. unforeseen - actions to be adopted by the Council during the financial year concerned.

   In conformity with the Financial Regulation, the Commission, on the basis of a Council decision, has the authority, within the framework of a CFSP action, to autonomously transfer appropriations between articles within one budget chapter, i.e. the CFSP allocation; the flexibility deemed necessary for speedy implementation of CFSP actions will accordingly be assured. In the event of the amount of the CFSP budget during the financial year being insufficient to cover the necessary expenses, the European Parliament and the Council will seek a solution as a matter of urgency, on a proposal from the Commission.
<table>
<thead>
<tr>
<th>Section</th>
<th>Basic Principles of the Agreement</th>
<th>Council’s Proposed Amendments</th>
<th>Parliament’s Proposed Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Within the CFSP budget chapter, the articles into which the CFSP actions are to be entered could read along the following lines: - observation and organisation of elections/participation in democratic transition processes; - European Union envoys; - prevention of conflicts/peace and security processes; - financial assistance to disarmament processes; - contributions to international conferences; - urgent actions. The European Parliament, the Council and the Commission agree that the amount for actions entered under the article mentioned in the sixth indent may not exceed 20% of the overall amount of the CFSP budget chapter.</td>
<td>Within the CFSP budget chapter, the articles into which the CFSP actions are to be entered could read along the following lines: - observation and organisation of elections/participation in democratic transition processes; - European Union envoys; - prevention of conflicts/peace and security processes; - financial assistance to disarmament processes; - contributions to international conferences; - urgent actions. The European Parliament, the Council and the Commission agree that the amount for actions entered under the article mentioned in the sixth indent may not exceed 20% of the overall amount of the CFSP budget chapter.</td>
<td></td>
</tr>
<tr>
<td>38.</td>
<td>Once a year the Council Presidency will consult the European Parliament on a Council document setting out the main aspects and basic choices of the CFSP, including the financial implications for the Communities’ budget. Furthermore, the Presidency will regularly inform the European Parliament about the development and implementation of CFSP actions. Whenever it adopts a decision in the field of CFSP entailing expenditure, the Council will immediately and in each case send the European Parliament an estimate of the costs envisaged (‘financial statement’), in particular those regarding time-frame, staff employed, use of premises and other infrastructure, transport facilities, training requirements and security arrangements. Once a quarter the Commission will inform the budgetary authority about the execution of CFSP actions and the financial forecasts for the remaining period of the year.</td>
<td>Once a year the Council Presidency will consult the European Parliament on a Council document setting out the main aspects and basic choices of the CFSP, including the financial implications for the Communities’ budget. Furthermore, the Presidency will regularly inform the European Parliament about the development and implementation of CFSP actions. Whenever it adopts a decision in the field of CFSP entailing expenditure, the Council will immediately and in each case send the European Parliament an estimate of the costs envisaged (‘financial statement’), in particular those regarding time-frame, staff employed, use of premises and other infrastructure, transport facilities, training requirements and security arrangements. Once a quarter the Commission will inform the budgetary authority about the execution of CFSP actions and the financial forecasts for the remaining period of the year.</td>
<td></td>
</tr>
</tbody>
</table>
### IV. FINAL PROVISIONS

39. Without prejudice to paragraphs 4 and 23, this Agreement will apply for an indefinite duration.

40. Whenever it considers it necessary and at all events at the same time as any proposal for a new financial perspective presented pursuant to paragraph 22, the Commission will present a report on the application of this Agreement and on the amendments which need to be made to it in the light of experience.

41. This Agreement enters into force on 1 January 2000. It repeals and replaces with effect from the same date:

- the Joint Declaration by the European Parliament, the Council and the Commission of 30 June 1982 on various measures to improve the budgetary procedure;

- the Declaration by the European Parliament, the Council and the Commission of 6 March 1995 on the incorporation of financial provisions into legislative acts;

- the Joint Declaration of 12 December 1996 concerning the improvement of information to the budgetary authority on fisheries agreements;


42. [text moved unchanged to paragraph 4c]
<table>
<thead>
<tr>
<th>ANNEX I</th>
<th>FINANCIAL PERSPECTIVE</th>
<th>Unchanged</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>ANNEX II</th>
<th>ANNEX II</th>
<th>ANNEX II</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESTIMATE OF EXPENDITURE CONNECTED WITH ACCESSION AND FINANCING ARRANGEMENTS</td>
<td>EXPENDITURE RESULTING FROM ACCESSION AND SOURCES OF FINANCING AVAILABLE</td>
<td>INDICATIVE ESTIMATE OF EXPENDITURE CONNECTED WITH ACCESSION, SUBJECT TO THE ADOPTION OF PROPOSALS ON THE FINANCING OF SUCH EXPENDITURE</td>
</tr>
</tbody>
</table>
A. After the technical adjustment of the financial perspective for the forthcoming financial year and prior to the Commission’s decision on the preliminary draft budget, a meeting of the trialogue will be convened to discuss the possible priorities for the budget of that year, with due account being taken of the institutions’ powers.

B. 1. An ad hoc conciliation procedure is set up for all expenditure.

2. As regards compulsory expenditure, the Commission, in presenting its preliminary draft budget, will identify:

(a) appropriations connected with new or planned legislation; and

(b) appropriations arising from the application of legislation existing when the previous budget was adopted.

The Commission will make a careful estimate of the financial implications of the Community’s obligations based on legislation. If necessary, it will update its estimates in the course of the budgetary procedure. It will supply the budgetary authority with all the duly justified reasons it may require.

If it considers it necessary, the Commission may present to the budgetary authority an ad hoc letter of amendment to update the figures underlying the estimate of agricultural expenditure in the preliminary draft budget and/or to update, on the basis of the most recent information available concerning fisheries agreements, the appropriations entered in the operational items for international fisheries agreements and those entered in reserve.

---

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2. As regards compulsory expenditure, the Commission, in presenting its preliminary draft budget, will identify:

(a) appropriations connected with new or planned legislation; and

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The Commission will make a careful estimate of the financial implications of the Community’s obligations based on legislation. If necessary, it will update its estimates in the course of the budgetary procedure. It will supply the budgetary authority with all the duly justified reasons it may require.

If it considers it necessary, the Commission may present to the budgetary authority an ad hoc letter of amendment to update the figures underlying the estimate of agricultural expenditure in the preliminary draft budget and/or to update, on the basis of the most recent information available concerning fisheries agreements, the appropriations entered in the operational items for international fisheries agreements and those entered in reserve.

---

[Council text acceptable]
This letter of amendment must be sent to the budgetary authority before the end of October.

If it is presented to the Council less than a month before Parliament’s first reading, the Council will as a rule consider the ad hoc letter of amendment when giving the draft budget its second reading.

3. The purpose of the conciliation procedure is to:

(a) secure agreement between the two arms of the budgetary authority as regards the appropriations referred to in 2(a) and 2(b), including those proposed in the ad hoc letter of amendment referred to at 2 above;

2a. With regard to non-compulsory expenditure, the Commission must present an execution report by 15 September each year - where appropriate, accompanied by a proposal for a global transfer - and an evaluation and/or projection of the expected legal bases and the pilot schemes and preparatory measures in progress. The Council may present at this triadlogue meeting the guidelines on the first reading of the budget, on the basis of the vote taken in the Committee on Budgets.

A triadlogue meeting, possibly followed by conciliation, will be held at least 15 working days before the European Parliament's first reading of the budget.

This letter of amendment must be sent to the budgetary authority before the end of October.

If it is presented to the budgetary authority less than a month before Parliament’s first reading, the Council will as a rule consider the ad hoc letter of amendment when giving the draft budget its second reading.

3. The purpose of the conciliation procedure is to:

(a) secure agreement between the two arms of the budgetary authority:
- as regards the appropriations referred to in 2(a) and 2(b), including those proposed in the ad hoc letter of amendment referred to at 2 above,
(b) continue discussion on the broad lines of the budget for the coming year in the light of the Commission’s preliminary draft, and more particularly to secure agreement between the two arms of the budgetary authority on matters for which reference to this procedure is made in this Agreement, namely:

- the possibility of exceeding the ceiling for heading 3 or 4 of the financial perspective during the budgetary procedure within the limits and on the terms laid down in the first subparagraph of paragraph 9;
- the possibility of entering in the budget commitment appropriations in excess of the financial perspective ceilings in accordance with the second subparagraph of paragraph 9;
- the classification of new budget items in accordance with paragraph 30;
- the setting of a new rate of increase for non-compulsory expenditure, where necessary, in accordance with point (b) of paragraph 31;
- the entry in the budget of an amount different from that specified in a legislative instrument adopted by the codecision procedure for the programmes concerned, in accordance with paragraph 32;
- the amounts to be entered in the operational items and in the reserve for financing fisheries agreements, in accordance with Annex VI;
- the amounts to be entered in the budget to finance expenditure on CFSP operations and the distribution between the articles in the CFSP budget chapter, in accordance with paragraph 37.

- as regards non compulsory expenditure,
- the classification of new budget items and each item whose legal basis has been amended in accordance with paragraph 30;
- the setting of a new rate of increase for non-compulsory expenditure, where necessary, in accordance with point (b) of paragraph 31;
- the entry in the budget of an amount different from that specified in a legislative instrument adopted by the codecision procedure for the programmes concerned, in accordance with paragraph 32;
- the amounts to be entered in the operational items and in the reserve for financing fisheries agreements, in accordance with Annex VI;
- the amounts to be entered in the budget to finance expenditure on CFSP operations and the distribution between the articles in the CFSP budget chapter, in accordance with paragraph 37.

- as regards non compulsory expenditure,
- the measures and/or programmes to be funded through use of the flexibility instrument (Article 8a);
- the appropriations (NCE) to be entered in the budget;
- the possibility of exceeding the ceiling for heading 3 or 4 of the financial perspective during the budgetary procedure within the limits and on the terms laid down in the first subparagraph of paragraph 9;
- the possibility of entering in the budget commitment appropriations in excess of the financial perspective ceilings in accordance with the second subparagraph of paragraph 9;
- the classification of new budget items and each item whose legal basis has been amended in accordance with paragraph 30;
- the setting of a new rate of increase for non-compulsory expenditure, where necessary, in accordance with point (b) of paragraph 31;
- the entry in the budget of an amount different from that specified in a legislative instrument adopted by the codecision procedure for the programmes concerned, in accordance with paragraph 32;
- the amounts to be entered in the operational items and in the reserve for financing fisheries agreements, in accordance with Annex VI;
- the amounts to be entered in the budget to finance expenditure on CFSP operations and the distribution between the articles in the CFSP budget chapter, in accordance with paragraph 37.
4. The procedure will begin with a trialogue meeting convened in time to allow the institutions to seek an agreement by no later than the date set by the Council for establishing its draft budget. At this trialogue meeting, the institutions’ delegations will be led by the President of the Council (Budgets), the Chairman of Parliament’s Committee on Budgets and the Member of the Commission with responsibility for budgets.

5. There will be conciliation between the Council and a European Parliament delegation, with the Commission also taking part, on the results of this trialogue. Unless decided otherwise during the trialogue, the conciliation meeting will be held at the traditional meeting between the same participants on the date set by the Council for establishing the draft budget. If necessary the institutions will continue the conciliation after the first reading of the budget by each of the two arms of the budgetary authority, in particular to discuss the ad hoc letter of amendment referred to in point 2 above. In this case a second conciliation meeting will be held on the day set by the Council for its second reading.

6. Each arm of the budgetary authority will take whatever steps are required to ensure that the results which may be secured in the conciliation process are respected throughout the current budgetary procedure.

If necessary the [...] conciliation will continue after the first reading of the budget by each of the two arms of the budgetary authority, in particular to discuss the ad hoc letter of amendment referred to in point 2 above and all the matters referred to at point 2a, 3b) of Annex III which have not been settled. In the event of disagreement, the decision of each arm of the budgetary authority must respect, in accordance with the procedures laid down in Article 203 of the Treaty, the financial perspective ceilings annexed to this Agreement, without prejudice to paragraphs 9 and 32 of this Agreement. [...] a second conciliation meeting will be held at least two weeks before the day set by the Council for its second reading.
The list of products might need to be reviewed in order to align it more with current practice, and the reference prices remain to be determined.

---

**ANNEX IV**

**RULES FOR THE TREATMENT OF FOOD AID EXPENDITURE**

<table>
<thead>
<tr>
<th>Product</th>
<th>Reference Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>- common wheat</td>
<td>ECU 127 per tonne</td>
</tr>
<tr>
<td>- other cereals</td>
<td>ECU 270 per tonne</td>
</tr>
<tr>
<td>- milk powder</td>
<td>ECU 1 119 per tonne</td>
</tr>
<tr>
<td>- butteroil</td>
<td>ECU 1 591 per tonne</td>
</tr>
<tr>
<td>- category A sugar</td>
<td>ECU 232 per tonne</td>
</tr>
</tbody>
</table>

The institutions agree on the following reference prices for the products subject to refunds, in the calculation of the appropriations for food aid:

- common wheat euro... per tonne
- other cereals euro... per tonne
- milk powder euro... per tonne
- butteroil euro... per tonne
- category A sugar euro... per tonne

The amount of appropriations for food aid in these products, excluding transport costs, charged to heading 4 will be obtained by multiplying the prices set as above by the quantities corresponding to the structural food aid requirements of non-member countries. The amount of appropriations for food aid charged to the EAGGF Guarantee Section will be obtained by multiplying the difference between the reference prices set as above and the foreseeable price on the Community market by the quantities used in the preceding calculation.

In accordance with the joint statement made by the three institutions when the Financial Regulation was revised and to ensure the proper financing of food aid without having to revise the financial perspective, compliance with the ceilings for headings 1 and 4 will not prevent a transfer between the items in Chapter B1-33 (Refunds in connection with Community food aid) and Chapter B7-20 (Food aid). The criteria for examining these transfers are those agreed by the European Parliament, the Council and the Commission in their statement of 12 February 1990.

* Figures to be decided.

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(1) The list of products might need to be reviewed in order to align it more with current practice, and the reference prices remain to be determined.
### ANNEX V
CLASSIFICATION OF EXISTING BUDGET ITEMS
(nomenclature and distribution by heading in 1998 budget)

<table>
<thead>
<tr>
<th>Heading 1</th>
<th>Expenditure connected with common market organisations</th>
<th>CE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Other expenditure financed by EAGGF Guarantee Section</td>
<td>NCE</td>
</tr>
</tbody>
</table>

| Heading 2 | Unchanged | NCE |

| Heading 3 | Unchanged | NCE |

<table>
<thead>
<tr>
<th>Heading 4</th>
<th>Expenditure resulting from international agreements concluded by the Union or the Community with third parties, including fisheries agreements</th>
<th>CE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contributions to international organizations or agencies</td>
<td>CE</td>
</tr>
<tr>
<td></td>
<td>Other items covered by heading 4 of the financial perspective</td>
<td>NCE</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Heading 5</th>
<th>Allowances and miscellaneous contributions on termination of service</th>
<th>CE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pensions and severance grants</td>
<td>CE</td>
</tr>
<tr>
<td></td>
<td>Legal expenses</td>
<td>CE</td>
</tr>
<tr>
<td></td>
<td>Damages</td>
<td>CE</td>
</tr>
<tr>
<td></td>
<td>Other items covered by heading 5 of the financial perspective</td>
<td>NCE</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Heading 6</th>
<th>Monetary reserve</th>
<th>CE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan Guarantee Fund</td>
<td>CE</td>
</tr>
<tr>
<td></td>
<td>Food aid reserve</td>
<td>NCE</td>
</tr>
</tbody>
</table>

| Heading 7 | p.m. |
**ANNEX VI**

<table>
<thead>
<tr>
<th>FINANCING OF EXPENDITURE DERIVING FROM FISHERIES AGREEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Expenditure relating to fisheries agreements is financed by two items <em>(by reference to the 1998 budget nomenclature)</em>:</td>
</tr>
<tr>
<td>(a) International fisheries agreements (B7-8000)</td>
</tr>
<tr>
<td>(b) Contributions to international organisations (B7-8001)</td>
</tr>
<tr>
<td>All the amounts relating to agreements and protocols which will be in force on 1 January of the year in question will be entered under item B7-8000. Amounts relating to all new or renewable agreements which will come into force after 1 January of the year in question will be assigned to item B7-8000 but entered in the reserve B0-40.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>ANNEX VII</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCING OF EXPENDITURE DERIVING FROM FISHERIES AGREEMENTS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>THE COUNCIL’S PROPOSED AMENDMENTS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapporteur’s proposal: delete the annex</td>
</tr>
</tbody>
</table>

| [ paragraph deleted ] |

**THE COUNCIL’S PROPOSED AMENDMENTS**

Rapporteur’s proposal: delete the annex
### Annex VI

**List of Articles of the EC and EAEC Treaties Which Directly Confer Powers on the Commission Which Are Specific and Likely to Have Financial Implications in Part B (Operating Appropriations) of Section III – Commission – of the Budget**

#### I. EC Treaty

<table>
<thead>
<tr>
<th>Article</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 118</td>
<td>Studies, opinions, consultations on social matters</td>
</tr>
<tr>
<td>Article 118b</td>
<td>Social dialogue</td>
</tr>
<tr>
<td>Article 122</td>
<td>Special reports in the social field</td>
</tr>
<tr>
<td>Article 129(2)</td>
<td>Initiatives to promote coordination with regard to health protection</td>
</tr>
<tr>
<td>Article 129c(2)</td>
<td>Initiatives to promote coordination with regard to trans-European networks</td>
</tr>
<tr>
<td>Article 130(2)</td>
<td>Initiatives to promote industrial coordination</td>
</tr>
<tr>
<td>Article 130b, second paragraph</td>
<td>Report on progress made towards achieving economic and social cohesion</td>
</tr>
<tr>
<td>Article 130h(2)</td>
<td>Initiatives to promote coordination with regard to technological research and development</td>
</tr>
<tr>
<td>Article 130p</td>
<td>Report on technological research and development</td>
</tr>
<tr>
<td>Article 130x(2)</td>
<td>Initiatives to promote the coordination of development cooperation policies</td>
</tr>
</tbody>
</table>
## II. EURATOM TREATY

<table>
<thead>
<tr>
<th>Chapter 6</th>
<th>Section 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 70</td>
<td>Supply policy</td>
</tr>
<tr>
<td></td>
<td>Financial support, within the limits set by the budget, to prospecting programmes in the territories of Member States</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 7</th>
<th>Article 77 et seq.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Safeguards</td>
</tr>
</tbody>
</table>
**ANNEX VIII**

**ON THE INTRODUCTION OF A CONCILIATION PROCEDURE FOR ACTS WITH SUBSTANTIAL FINANCIAL IMPLICATIONS**

<table>
<thead>
<tr>
<th>THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COMMISSION,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whereas from 1 January 1975, the Budget of the Communities will be financed entirely from the Communities’ own resources;</td>
</tr>
<tr>
<td>Whereas in order to implement this system the European Parliament will be given increased budgetary powers;</td>
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<td>Whereas the increase in the budgetary powers of the European Parliament must be accompanied by effective participation by the latter in the procedure for preparing and adopting decisions which give rise to important expenditure or revenue to be charged or credited to the budget of the European Communities,</td>
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<td>HAVE AGREED AS FOLLOWS:</td>
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<td>1. A conciliation procedure between the European Parliament and the Council with the active assistance of the Commission is hereby instituted.</td>
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<td>2. This procedure may be followed for Community acts of general application which have appreciable financial implications, and of which the adoption is not required by virtue of acts already in existence.</td>
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3. When submitting its proposal the Commission shall indicate whether the act in question is, in its opinion, capable of being the subject of the conciliation procedure. The European Parliament, when giving its opinion, and the Council may request that this procedure be initiated.  
4. The procedure shall be initiated if the criteria laid down in paragraph 2 are met and if the Council intends to depart from the opinion adopted by the European Parliament.  
5. The conciliation shall take place in a ‘Conciliation Committee’ consisting of the Council and representatives of the European Parliament. The Commission shall participate in the work of the Conciliation Committee.

## The Joint Declaration of 1975

The Joint Declaration of 1975, which does not form part of the Commission proposal, is given below for information.

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**3. When submitting its proposal the Commission shall indicate whether the act in question is, in its opinion, capable of being the subject of the conciliation procedure. The European Parliament, when giving its opinion, and the Council may request that this procedure be initiated.**

4. The procedure shall be initiated if the criteria laid down in paragraph 2 are met and if the Council intends to depart from the opinion adopted by the European Parliament.

5. The conciliation shall take place in a ‘Conciliation Committee’ consisting of the Council and representatives of the European Parliament. The Commission shall participate in the work of the Conciliation Committee.
6. The aim of the procedure shall be to seek an agreement between the European Parliament and the Council. The procedure should normally take place during a period not exceeding three months, unless the act in question has to be adopted before a specific date or if the matter is urgent, in which case the Council may fix an appropriate time limit.

7. When the positions of the two institutions are sufficiently close, the European Parliament may give a new opinion, after which the Council shall take definitive action.

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REPORT

on the communication from the Commission to the Council and the European Parliament on the establishment of a new financial perspective for the period 2000-2006 (COM(98)0164 – C4-0304/98) and on the report on the implementation of the Interinstitutional
Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98)

Part C - Opinions of other committees

Committee on Budgets

Rapporteur: Mr Joan Colom i Naval

Draftsmen (*)
- Mr Claude Desama, Committee on Research, Technological Development and Energy
- Mr Reinhard Rack, Committee on Regional Policy

(*) ‘Hughes’ procedure

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* 'Hughes' procedure
21 January 1999

**OPINION**

(Rule 147)

for the Committee on Budgets


and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Economic and Monetary Affairs and Industrial Policy

Draftsman: Mr José Manuel García-Margallo y Marfil

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**PROCEDURE**

At its meeting of 25 June 1998 the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr García-Margallo y Marfil draftsman.


At the last meeting it adopted the following conclusions unanimously.

The following were present for the vote: von Wogau, chairman; Katiforís and Secchi, vice-chairmen; García-Margallo y Marfil, draftsman; Areitio Toledo, Argyrós (for Arroni), Barton (for Billingham), Breyer (for Soltwedel-Schäfer pursuant to Rule 138(2)), Carlsson, Cars (for Riis-Jørgensen), Castagnède, Cox, Ettl (for Berès), Fayot, Friedrich, Gallagher, García Arias, Gasòliba i Böhm, Glase (for Christodoulou), Harrison, Hautala, Hendrick,
BACKGROUND

With the present Communication COM(98)0164 on the establishment of a new Financial Perspective for the period from 2000 to 2006 the European Commission is fulfilling its obligation in Article 25 of the last Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure, signed on 23 October 1993, according to which the Commission was to present proposals for a new Financial Perspective by 1 July 1998. Essentially the Financial Perspective sets ceilings for each of the six categories of expenditure under the European Union budget - agriculture, structural operations, internal policies, external action, administrative expenditure and reserves - for each year covered by the Perspective, in the present case up to and including 2006. ‘Ceilings’ is the operative word here. The figures given in the proposed Financial Perspective table are precise amounts, in millions of 1999 euros, and represent maximum values for appropriations for commitments for the category concerned. In practice, the sum of all appropriations for payments within any one year are subject to a ceiling on the own resources of the European Union budget of 1.27 % of GNP - a ceiling that is to hold good for the entire duration of the Financial Perspective. This is why the Financial Perspective also projects the evolution in total appropriations for payments and relates these to forecast GNP, reaching the conclusion that, in the final year of the Financial Perspective, and under current expectations as to GNP growth, these should amount to 1.13 % of GNP, leaving a sum equivalent to 0.14 % of GNP available for a safety margin (0.03 %) and to finance enlargement (0.11 %).

Within the Financial Perspective, the Commission is proposing different rates of increase for different spending categories. These range from an increase of 19 % (in 2000-euros) over the period 2000-2006 for category 3, internal policies, to a decline of 11.4 % for category 2, structural operations. The fall in allocations for the structural funds reflects the fact that various measures currently financed under the structural funds are henceforth to be financed from the EAGGF Guarantee Section, and the fact that enlargement is going to be partially funded by reducing revenue intended to correct imbalances in the present Union territory (taking up 0.46 % of Community GDP in 1999, and only 0.33 in 2006).

From the point of view of the Committee on Economic and Monetary Affairs and Industrial Policy, it is to be welcomed that the spending category that is to see the highest real increase is number three, internal policies, which includes all the programmes of particular interest to this Committee (growth and employment, Prince, TEN telecoms and the single market-related programmes such as support for standardisation, Custom 2000 etc). The Commission is rightly giving this category the highest priority precisely because of the contribution such spending can make to growth and employment - particularly when it is coupled to a commitment to boost the effectiveness of internal policies by avoiding the dispersion of funds between too many programmes and concentrating the financing on the five priorities trans-European networks, research and innovation, education and training, introduction of environment-friendly technologies and measures to support smaller businesses. On the other hand it is regrettable that the
funding for the structural policy should be reduced compared with the previous period, despite the fact that income disparities between the Union regions hardly changed between 1983 and 1993, and that unemployment rose in the 25 poorest regions while it fell in the most prosperous ones during the same period (report on Economic and social cohesion 1996, pp 134 and 136).

The draftsman, however, wishes to raise some questions about the premise on which the Commission has drawn up its proposal for a new Financial Perspective. Limiting total appropriations for payments to 1.27 % of GNP means that any failure to reach the Commission’s projections for economic growth could seriously compromise the Union’s spending plans - particularly at a time when the Union is planning to enlarge to include states with drastically lower levels of national income than the present EU-15 average. That is precisely what happened between 1993 and 1996, when average annual growth in real terms was 1.5 %, while the Financial Perspective for the period 1993-1999 was established on the assumption of a growth rate of 2.5 %. The consequences were twofold: (1) the narrow margin of security between the limit on own resources and total appropriations (0.01 % of GNP) that remained available was completely eroded from the outset; and (2) the decline in own resources compared to those budgeted for led to the appearance of negative balances, which had to be charged to the maximum limit, reducing spending capacity by the same proportion (report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure, COM(98) 165 final).

It has become a basic tenet of EU budgeting that enlargement has to be financed under the existing own-resources ceiling of 1.27 %. The draftsman questions whether it is appropriate to insist on a 1.27 % ceiling when the outlook for economic growth is at best uncertain and the cost of enlargement promises to be high.

For the purpose of the Financial Perspective the Commission is forecasting a GNP growth rate of an average of 2.5 % p.a. over the period in question. The Commission has at least informally confirmed this forecast in the month of November 1998 - that is, after the scale of the financial crisis enveloping parts of Asia, Russia and South America has become known. To allow for the cost of enlargement, and still stay within the 1.27 % own-resources ceiling, the Commission is conveniently forecasting a fall in total appropriations for payments from 1.24 % of GNP in 2000 to 1.13 % of GNP in 2006. This should, as mentioned above, leave 0.11 % of EU-15 GNP in 2006 for the enlargement effort in that year (a figure that will have risen steadily from 0.02 % of EU-15 GNP in 2002).

The Committee on Economic and Monetary Affairs and Industrial Policy of course recognises that all these assumptions - particularly the year of accession of the new Member States - are shrouded in great uncertainty. But conversely, it calls on the Commission to agree that its forecasts, and especially that of continuing 2.5 % annual GNP growth, are equally uncertain. The draftsman has made a few calculations based on lower growth rates. 2 % annual growth would mean that payment appropriations of 104.56 bn euros in 2006, as projected by the Commission, would represent not 1.13 %, but 1.17 % of EU-15 GNP. This would leave only 0.07 % of GNP that year for the enlargement effort, provided the safety margin of 0.03 % of GNP
were to remain intact. And annual growth of 1% - admittedly low by the standards of most forecasts - would mean that payments of 104.56 bn euros would represent 1.25% of GNP, leaving nothing at all for enlargement. Furthermore, should growth fall much below expectations then there would certainly be calls for considerably higher spending on initiatives aimed at creating employment.

In the view of the draftsman, these points serve to illustrate the futility of attempting to impose too tight a strait-jacket, and too positive assumptions, on plans for a new Financial Perspective. He would point to the Parliament’s resolution A4-0331/97 of 4 December 1997, on Agenda 2000, in which it called for periodic reassessment of data pertaining to the Union’s economy and the financing of its spending, cast some doubt on the growth forecast of 2.5% per annum and concluded that declaring the own-resources ceiling to be sacrosanct was ‘premature and may cause genuine problems to be underestimated’ (paragraph 10). There would seem to be a contradiction between the Commission’s confidence in the growth outlook for the EU on the one hand and its insistence on the need for the highest priority to be given to policies that can stimulate growth and employment on the other.

In view of the uncertain outlook the draftsman recalls also paragraph 6 of the Parliament’s Resolution A4-0331/97 of 4 December 1997 which emphasised that any new Financial Perspective must be revised automatically once one or more applicant countries sign the accession to the Union, or if the estimated rate of growth is not attained.

CONCLUSIONS

The Committee on Economic and Monetary Affairs and Industrial Policy calls on the Committee on Budgets, as the committee responsible, to incorporate the following amendments in its report:

The European Parliament,

31. Questions, in view of the world monetary and financial crises, the Commission’s GNP growth forecast of 2.5% p.a. on average over the period of the Financial Perspective and calls on the Commission to consider the implications for its spending plans of potentially rather lower growth rates;

32. Welcomes the fact that the maximum limits in the Financial Perspective for 1999 represent the starting point for the allocations proposed for the period 2000 to 2006, insists in any case on the need for periodic reassessment of GNP data and draws attention to the apparent contradiction between the Commission’s confidence in the EU’s growth outlook and its insistence on the need to stimulate growth and employment;
3. Questions again the appropriateness of declaring the 1.27 %-of-GNP own-resources ceiling to be adequate for the duration of the new Financial Perspective, particularly in view of the expected enlargement of the Union; recalls its Resolution A4-0331/97 of 4 December 1997, according to which the Financial Perspective must be revised automatically once one or more applicant countries sign the accession to the Union or if the estimated rate of growth is not attained;

4. Welcomes the commitment the Commission has demonstrated to stimulating growth and employment by giving the highest priority to heading 3 in the Financial Perspective, Internal policies, and by declaring its intention to boost the effectiveness of the internal policies by concentrating financing on five priority areas; regrets, however, that the funding proposed for cohesion is less than that established at the Edinburgh European Council in December 1992, although the overall impact of national policies, non-structural Community policies and specifically structural policies between 1993 and 1996 did not succeed in bringing the poorest and the richest regions closer together, and unemployment was concentrated in the former.
22 January 1999

**OPINION**
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new financial perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Research, Technological Development and Energy

Draftsman: Mr Claude Desama

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**PROCEDURE**

At its meeting of 23 June 1998 the Committee on Research, Technological Development and Energy appointed Mr Claude Desama draftsman.

It considered the draft opinion at its meetings of 25 November 1998 and 20/21 January 1999.

At the latter meeting it adopted the following conclusions unanimously.

The following were present for the vote: Scapagnini, chairman; Adam, vice-chairman; Desama, draftsman; Camisón Asensio (for Argyros), Chichester, Estevan Bolea, Ferber, Gomolka (for Quisthoudt-Rowohl), Heinisch (for van Velzen), Holm (for Bloch von Blottnitz), Hudghton (for Weber), Linkohr, McAvan, Marset Campos, Matikainen-Kallström, Mombaur, Pompidou, Rothe, Rovsing and Tannert.
1. Introduction

The communication submitted by the Commission on 18 March 1998 on the establishment of a new financial perspective for the period 2000-2006 firstly takes as its starting point the current 15 Member States of the European Union; and, secondly, it attempts to incorporate, in a planned fashion, the expenditure arising from the likely enlargement of the Union in that period. The document must be viewed in conjunction with two other texts: the report on implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure, including the annexed proposals for a new agreement(1), and the legislative proposals on Agenda 2000(2). These texts form a package obliging the Committee on Budgets and the committees delivering opinions to take a united stance in the negotiations with the other institutions.

The Commission has assumed, as it has for Agenda 2000, estimated annual gross national product growth in the Member States of 2.5% (4% for applicant countries). Its budgetary objective is to finance enlargement on the basis of the current own resources ceiling of 1.27% of the Member States’ gross national product. The overall ceiling on appropriations for commitments, including pre-accession aid, is to increase by no more than 0.2% per year, as a result of which a margin would become available, growing from 0.02% to 0.1% of the Member States’ gross national product, between the ceiling on appropriations for payments and the own resources ceiling, in order to cover accession-related expenditure. In this connection it should be pointed out that the financial perspective only sets overall expenditure ceilings and thus by no means defines the level or breakdown of annual appropriations within this framework. That task remains the prerogative of the budgetary authority.

The financial perspective is divided into the headings:
- agriculture (1),
- structural operations (2),
- internal policies (3),
- external action (4),
- administrative expenditure (5) and
- reserves (6).

The Commission proposes that more flexibility be introduced in the financial perspective, e.g. allowing limited transfers of resources between headings 3 (internal policies) and 4 (external action) without making it necessary to amend the financial perspective. In addition, we are very pleased that the Commission provides for the highest increase to go on appropriations earmarked for internal policies (heading 3), since, in its opinion, they make the

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(1) COM(98)0165 final.
(2) COM(98)0182 final.
most significant contribution to growth and employment and to consolidating economic and monetary union. The Commission also rightly points out that the European Union currently spends a much smaller proportion of its gross domestic product on research and development (1.8%) than the United States (2.4%) and Japan (2.9%). The Community’s share of the Union’s total research spending is a paltry 4%. The Research Committee has already pointed to this problem, in its opinion of 22 October 1997 (draftsman: Mrs Haug) on the report by the Committee on Budgets on Agenda 2000 (rapporteur: Mr Colom i Naval(1)), and set out why there should be above-average growth in Community funding in the R&D field.

2. Heading 3 (internal policies) - Research and innovation, trans-European networks, energy

*Research and innovation*

In Agenda 2000, the Commission specifies five priority areas within internal policies, including trans-European networks for energy and the area of research and innovation, which directly come within the terms of reference of the Committee on Research, Technological Development and Energy. However, the application of environment-friendly technologies and measures to assist small and medium-sized enterprises are reflected in corresponding sections of the Fifth Framework Programme for research, technological development and demonstration activities (1998-2002). In the areas of energy efficiency and renewable energies, for instance, considerable additional funding is required.

The level of funding required for European-level research is of course not determined mechanistically on the basis of an arbitrarily determined percentage of an equally arbitrarily determined ceiling for heading 3 of the financial perspective; rather, the decisive factor must be the extent of scientific and technological deficiencies, which are responsible to a large extent for European industry’s lack of innovative capacity and for the accompanying unemployment. Even though assistance for research is largely the responsibility of the Member States, the Union must seek to establish a genuine research and innovation community in order to eliminate those deficiencies.

The committee therefore welcomes the plan that appropriations for heading 3 should grow by approx. 2.5% per year. At the same time it points out that many years’ experience at national and Community level shows that the costs of research projects rise more quickly than the average rate of inflation, this being the result inter alia of technological progress and the way in which innovative research projects proceed (which, typically, is not entirely predictable). The committee therefore continues to believe that there must be above-average growth for the area of research and innovation within heading 3 in order to take account of the special characteristics of research funding. For that reason, it regards the 60% share of heading 3 funding

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(1) Doc. A4-0331/97.
going to research, projected in Agenda 2000, as a minimum. After the Fifth Framework Programme has expired, the financial perspective must offer adequate leeway for a commensurate allocation for the follow-up programme at at least the same level in real terms.

Under the conciliation procedure on the Fifth Framework Programme, which is about to be wound up, provision has been made for an amount of EUR 14.96 bn at current prices. The amount of EUR 16.3 bn originally earmarked by Parliament and the Commission was intended to reflect a slightly increased percentage of the Union’s GDP (estimated to 2002) and hence reflect the priority accorded to research. It will now very likely not be possible to realise that objective. The figure of 6% of the general budget - Parliament’s objective since the 1980s - remains as far away as ever.

Trans-European networks

The Commission and Parliament agree that the Community’s current share of trans-European network financing is inadequate. Adequate leeway for topping up the corresponding funding should therefore be provided for in the financial perspective.

Energy

Because there is no separate chapter on energy in the Treaty of Amsterdam, there are no grounds for optimism as regards the future financing of Community energy policy. In its document, the Commission makes cursory reference to the issue, without going into specifics, only in connection with trans-European networks. This picks up where Agenda 2000 leaves off, the Commission’s description of internal-policy priorities having completely omitted energy from Agenda 2000. In the process of adopting energy programmes (e.g. SAVE, SYNERGY and ALTENER), and within the budgetary procedure, the Council has been uncompromising in its attempts to cut the proposed funding. For years, the Committee on Research, Technological Development and Energy has tried to counter this, but with no great success. However, heading 3 of the financial perspective must be dimensioned in such a way that these important tasks can be coped with on the basis of adequate resources.

3. Accession-related expenditure

The ceiling for heading 4 (external action) is to rise by 2% annually to a total of EUR 7.9 bn in 2006. This includes resources to finance preparation for accession under the PHARE programme, for which a constant amount of EUR 1560 m a year is to be available.

The research programmes carried out by the Community have a long tradition of being open to non-member states, in particular to countries seeking to accede to the Union. In section 5.1 of its document, the Commission makes no provision for a role for the research sector as regards preparing and facilitating accession by the prospective candidates. This is odd, given that the countries of Central and Eastern Europe are already taking part in the
Community’s Fourth Framework Programme for research, their participation being financed from the PHARE programme. Some applicant countries have a well-developed infrastructure the inclusion of which in European programmes, in particular the Fifth Framework Programme, would be of mutual benefit. Appropriate funding must be earmarked for this.

Of particular importance in this connection are of course the issues of safety and supervision of nuclear power station operation; relevant projects are currently being assisted under the PHARE programme, and assistance has been provided as of this year from special foreign-policy budget headings. The Committee on Research, Technological Development and Energy assumes that account will be taken of this need when PHARE resources are laid down and/or increased.

4. Procedural and institutional aspects

In his preparatory documents, the rapporteur for the Committee on Budgets has already concluded that, unlike in the two previous financial perspective periods, the Community’s own resources ceiling should not increase and Parliament therefore no longer enjoys an advantage, in relation to the provisions of Article 203 of the EC Treaty (Article 272 of the Treaty of Amsterdam), if it renounces certain rights to which it is entitled under the budgetary procedure. In the rapporteur’s view, then, Parliament should, in addition to other aspects, make its agreement dependent on greater flexibility concerning non-compulsory expenditure. This is congruent with the wishes, expressed above, of the Committee on Research, Technological Development and Energy, which, in particular, opposes the intention, set out in the common position, to specify detailed annual amounts for the Union’s research policy with no margin at all(1).

In addition, the committee points out that increasing fragmentation of the amounts laid down in the financial perspective, for individual items, weakens Parliament’s budgetary authority role, since there is less and less leeway within the budgetary procedure and the implementation of multiannual programmes risks becoming simply a process of applying the ceilings specified in the financial perspective.

(1) cf. Doc. C4-0182/98.
5. Conclusions

The Committee on Research, Technological Development and Energy calls on the Committee on Budgets to incorporate the following conclusions in its report:

The European Parliament,

1. Regards Union assistance for research and technological development as a priority task in order to contribute to European industry’s competitiveness, job creation and growth and sustainable development;

2. Points out that the amount of EUR 14.96 bn for the Fifth Framework Programme for research, technological development and demonstration activities will lead to an appreciable decline in the percentage share of internal policies accounted for by R&D spending;

3. Recommends that, in the financial perspective, a range be set (50-66%) for expenditure on research within heading 3;

4. Rejects overly detailed setting of annual maximum amounts for Community research policy, since this would hinder implementation of the Fifth Framework Programme for research, technological development and demonstration activities (1998-2002) and jeopardise commensurate funding of the follow-up programme (starting in 2003);

5. Rejects flexibility between headings on principle;

6. Believes that heading 3 should obtain considerably more funding for energy policy, not only for research but also for the trans-European networks, energy efficiency measures and promotion of renewable energies, in order to restore the credibility of the commitments the Community has set itself as regards climate protection;

7. Calls for the inclusion, in the area of accession-related expenditure, of specific measures for guaranteeing the safety and supervision of nuclear power station operation in applicant countries.
26 November 1998

**OPINION**
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on External Economic Relations

Draftsman: Manuel Porto

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**PROCEDURE**

At its meeting of 23 April 1998 the Committee on External Economic Relations appointed Mr Porto draftsman.

It considered the draft opinion at its meetings of 10 November and 25 November 1998.

At the latter meeting it adopted the following conclusions unanimously.

The following took part in the vote: Herzog, chairman; Kittelmann, vice-chairman; Porto, draftsman; Hindley, Miranda de Lage, Smith and Valdivielso de Cué.

I. **BACKGROUND**
In the communication entitled 'Agenda 2000' (COM(87)2000), which it submitted in July 1997, the Commission provided a coherent analysis of the challenges arising for the EU as a result of both the globalisation of trade and competition and the future enlargement to take in the CEECs and Cyprus, together with the implications for Community policies and the applicant countries. In that communication, the Commission also put forward a reference financial framework for the period 2000-2006. The Committee on External Economic Relations gave its views on this in the Moniz opinion (PE 222.530).

The EP set out its political priorities regarding the financial framework in the Colom i Naval report (A4-0331/97) on 'Agenda 2000: the 2000-2006 financial framework for the Union and the future financing system', which constitutes the basic point of reference in this area.

The communication currently before us (COM(98)0164) is, in fact, the report which the Commission was required to submit to the two arms of the budgetary authority under the terms of paragraph 25 of the Interinstitutional Agreement (IA) of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure, which stipulates that 'before 1 July 1998 the Commission will present proposals for a new medium-term financial perspective'. It was submitted on 18 March 1998.

The operation of the Union's own resources system and the proposals for reform are the third key issue in the financial negotiations conducted pursuant to Agenda 2000, and were placed on the negotiating table at the behest of some Member States who had expressed dissatisfaction with the system currently used to finance the Community budget. The Commission decided to submit the report ahead of schedule (it was initially to be submitted in 1999 under the terms of Article 10 of Decision 94/728/EC) so as to make it possible for the overall negotiations on Agenda 2000 to be concluded by the appointed date (March 1999). President Santer presented the report to Parliament on 7 October 1998.

The purpose of this opinion is to assess the Commission proposals, with particular reference to those dealing with expenditure under heading 4 ('External Action'). The current Financial Perspective covers the period 1993-1999 and negotiations are shortly to commence on the multiannual financial framework for the period 2000-2006, which is to take into account the future enlargement of the EU.

II. ASSESSMENT OF THE COMMISSION PROPOSALS

The Commission's political position may be summarised as follows: it is possible to provide for the development of the revamped Community policies for the current Member States and, under certain conditions, finance the accession of a number of countries from Central and Eastern Europe and Cyprus without changing the own-resources ceiling of 1.27% of GNP between now and 2006. This basic position is reflected in all the documents submitted by the Commission.
The Commission bases its calculations on a number of assumptions:

- the GNP of the Member States will grow at an annual rate of 2.5% in real terms during the period 2000-2006. According to the Council Presidency report of 1 October 1998, up to now a sufficiently wide range of economic growth forecasts for the period have been considered (from 1.5% to 2%), without the viability of the Commission proposals being called into question. The draftsman has not been given access to those technical studies; however, the latest trends point to a fall-off in the economic growth rate;

- the agricultural guideline is to remain at its current levels, which means that the annual increase in agricultural spending will account for 74% of the increase in Community GNP, which is equivalent to a real growth rate of 1.85%. Funding of the reformed CAP is set to rise from EUR 41.7 billion in 1999 to EUR 47.9 in 2006. Under the guideline system, expenditure on agriculture is set to rise by EUR 10 600 million during the period 2000-2006. It should also be pointed out that the priority given to northern agricultural products (beef and veal, dairy products and cereals) will serve to exacerbate imbalances between the north and south of the Union;

- the Commission states its willingness to maintain cohesion policy funding (the Structural Funds and the Cohesion Fund) at the same relative level as in 1999 (0.47% of GNP). However, a significant proportion (approximately one-third) of the budgetary cost of enlargement will obviously be financed by freezing - in real terms - funding of the 15-Member State EU’s internal solidarity policies (which, furthermore, is to be reduced starting in 2002, with the level falling from EUR 34.2 billion in that year to EUR 30.2 billion in 2006). When compared with the amount earmarked for 1999, this represents a reduction of EUR 10 200 m over the period 2000-2006. This reduction, based on constant 1997 prices, is actually higher in relative terms when compared with GNP growth, given that, according to the Commission figures, the Union’s real expenditure on cohesion policy for the current Community will fall from 0.467% of GNP to 0.390%. In practice, this reduction in appropriations for the Structural Funds and the Cohesion Fund for the 15 Member States as a whole may mean that the least-prosperous Member States will be those which make the biggest contribution to the funding of enlargement;

- the overall budget for ‘external action’ (heading 4) is to be increased gradually from EUR 6 870 m in 1999 to EUR 7 900 m in 2006, which represents an average annual increase of 2% and is thus lower than the forecast GNP growth rate for the Community. Given that these figures include pre-accession aid (PHARE Programme), which is set to rise considerably, this will put pressure on the financial resources available to finance the Union’s cooperation and development policies for other regions. Pre-accession aid expenditure is, in fact, set to rise by 15.4% in real terms between 1999 and 2000, while the total appropriations under heading 4 will remain unchanged - again in real terms - at EUR 6 870 m.
5. Over the past fifty years the current members of the EU have played a decisive role in extending the boundaries of the known world and its social model. Now, at the end of the second millennium, the EU still has an historic responsibility to cooperate with and provide development aid to other parts of the world. As the OECD's Development Aid Committee recently pointed out, the Union's development aid spending increased by 3.3% per annum over the past five years, while, over the same period, the aid provided by the 22 most industrialised nations as a whole decreased by 4.7% per annum. It would be paradoxical for this trend to be reversed now, at a time when the demand for aid from and cooperation with Europe is at its strongest, when Europe is taking on an increasingly prominent role in the commercial and financial spheres and when the EU is offering new types of association agreement (the Euro-Mediterranean economic area, the free trade agreement with South Africa and Mexico, the finalisation of the interregional association arrangements with MERCOSUR and Chile, the stepping up of regional financial cooperation with ASEAN, southern Asia, Central America and the Andean Pact and the support for the Middle East peace process). Furthermore, in geopolitical terms, one of the most significant effects of the forthcoming enlargement will be to increase substantially the Union's influence in Eastern Europe (Russia and Ukraine) and Asia (Transcaucasia and central Asia). In order to enable the Union to take up these new external responsibilities, adequate financial support must be provided to facilitate the entry into force of the new cooperation and aid models in the first few years of the next decade.

Finally, if the Union's external relations set-up is to remain consistent, the additional financial effort which must be made in order to facilitate the accession of the CEECs and Cyprus must not lead to a decrease in funding for cooperation with other regions and for horizontal development aid programmes.

It would thus be extremely useful for the Commission to draw up a table showing the breakdown by region of the proposed appropriations for heading 4 during the period 2000-2006.

III. CONCLUSIONS

The Committee on External Economic Relations calls on the Committee on Budgets to include the following conclusions in its report:

1. Points out that the Commission does not, as it did in earlier financial perspectives, calculate the actual funding required by Community policies in the future, but simply states that the current own-resources ceiling of 1.27% of GNP will remain unchanged in line with the policy of budgetary austerity made necessary by the transition to the third stage of EMU;
2. Notes, however, that stubborn adherence to the current ceiling could, in the medium term, reduce the scope of the financial framework for 2000-2006 by imposing excessively rigid constraints on the Union and at the same time make it more difficult to develop new policies which are already provided in the Treaties;

3. Draws attention in particular to the fact that the proposed reduction in Structural Fund and Cohesion Fund resources for the 15 Member States as a whole will mean that the least-prosperous Member States will be those making the greatest contribution to the funding of enlargement, and that this imbalance will be exacerbated by the priority given to northern agricultural products; considers, in this connection, that it would be unacceptable to allow enlargement to undermine the current policy of economic and social cohesion;

4. Considers it vital for the future 2000-2006 financial framework to leave open the possibility of a revision of the own-resources ceiling, given that, according to the latest figures, the forecast annual growth rate could prove over-optimistic, as could the 'potential savings' to be made through the adoption of reforms to existing policies;

5. Emphasises the fact that, under heading 4 ('External Action'), pre-accession aid expenditure will rise considerably, thus putting pressure on the financial resources available to meet the cost of the Union's ever-growing external responsibilities as regards both development aid and cooperation, for which there is increasing demand from third countries;

6. Points out that, at the Cannes European Council of June 1995, the European Union took the view that the political stability of Europe depended both on the outcome of the reforms undertaken in Eastern Europe and the economic prosperity of the southern Mediterranean countries, and approved a financial package for the period 1995-1999 under which that region, which is of strategic importance to European security, would receive 70% of the aid intended for the East; considers that the commitment to break down aid in this manner should remain valid;

7. Points out that if the Union's external relations set-up is to remain consistent, the additional financial effort which must be made in order to facilitate the accession of the CEECs and Cyprus must not lead to a decrease in funding for cooperation with other regions and for horizontal development aid programmes;

8. Takes the view that the EU cannot delay for much longer the introduction of a system for the funding of the Community budget which is adequate and flexible and which distributes the burden fairly among the Member States; considers that the reform of the own-resources system should be based on proposals to make it less regressive (for example, by taking greater account of the relative prosperity of the individual Member States and personal income levels) and more transparent than the current system.
30 June 1998

**OPINION**  
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Employment and Social Affairs

Draftsman: Mr Stephen Hughes

At its meeting of 4 June 1998, the Committee on Employment and Social Affairs appointed Mr Stephen Hughes draftsman.

It considered the draft opinion at its meeting of 30 June 1998.

At the last meeting it adopted the following conclusions unanimously.

The following were present for the vote: Hughes, chairman and draftsman; Menrad and Ojala, vice-chairmen; Cabezón Alonso, Chanterie, Correia, Crowley, Glase, González Alvarez, Hermange, Hernandez Mollar, Jöns, Mann, Peter, Pronk, Schiedermeier, Schörling, Van Lancker, van Velzen, Waddington, Weiler and Wolf.

I. Introduction

The financial perspectives (FIP) comprise six headings, a separate "estimate" of expenditure relating to accession is provided but will not be incorporated in the FIP until the actual time of accession by means of an adjustment to the FIP. On the contrary, pre-accession aid is to be financed through three different headings of the financial perspectives namely, agriculture, structural operations and external action (Phare). A specific sub-heading is provided in each of the headings concerned.

For structural operations (heading 2) the total amount at constant 1999 prices is EUR 247 billion (including 7.280 million for pre-accession aid). The net amount (EUR 239,720 million) represents an increase of 15,25% over the allocation provided in the current FIP (1993-99). Nevertheless, compared to the last year (1999) of the current FIP the proposed allocation would fall by around 1% on an annual basis from the year 2000 on.

Internal policies (heading 3) will have the highest rate of increase in the FIP (EUR 49.270 million) and the bulk of it is devoted to the financing of "five major priorities", namely the TENs, R&D, education and training, introduction of environment-friendly technologies and support for SMEs.

II. Political priorities

The 1999 budget would set the trend for the establishment of future PDBs that would generate "substantial margins" beneath the own resources ceiling. The Commission expects these margins to allow the EU to cover the cost of accession without having to raise the 1,27% of GNP own resources ceiling. The rigorous PDB for 1999 representing just 1,11% of GNP (substantially less than allowed under the current FIP) and the fulfilment of the economic assumptions on medium-term growth of 2,5% of GNP a year, would obtain a margin between appropriations and the ceiling provided by the FIP substantially higher than actually expected.

The FIP betray the political priority given to the financing of enlargement within the present own resources ceiling. Hence, the new Financial Perspectives deliberately circumscribe expenditure under heading 2 which in the past grew at a quicker pace than the average increase of the budget.(1)

A more serious development is the attempt by the Commission in the new IIA to revert the special status recognised by the Edinburgh Council for the

(1) Annual rate of increase from 1993 to 1999 at current prices for structural operations: 6,4% (FIP average 3,9%).
Structural Funds which was crystallized in the IIA of 1993(1). The Commission proposes to impose an overall "expenditure ceiling" for the Structural Funds instead of considering allocations to them as 'spending targets', as was the case in the previous IIA. This raises a legitimate question, ie to know under which mandate the Commission undertook to reverse the Edinburgh agreement.

The Commission’s endeavour to do away with the special status of Structural Funds is evident also in the new framework Regulation for the Structural Funds(2). Pursuant to this new proposal appropriations for which "an acceptable payment application" has not been made by the end of the second year, following the year of commitment, would be automatically decommitted and lapse. The consequences of this proposal combined with the proposed modification of the IIA would be to bring down the effective take-up of appropriations entered in heading 2 of the FIP, especially at the beginning of the implementation of the new Regulations and to diminish the overall effort to strengthen economic and social cohesion;

III. Improving FIP’s management

Experience with the current financial framework has evidenced the need for greater flexibility between certain headings of the FIP. To achieve this the Commission proposes to establish a practice of "communicating vases" between headings 3 and 4 giving it the latitude to approve appropriations in excess of the ceiling for up to a maximum of EUR 100 million without revision of the FIP and provided that the excess is counterbalanced by an equal amount beneath the ceiling of the heading not concerned.

Another novelty is the proposal to increase flexibility from one year to the next following a proposal from the Commission to the budgetary authority during the special conciliation procedure on the budget. This would allow for part of any positive budget balance from the previous year - up to a maximum of EUR 500 million - to be used to cover "clearly identified requirements of significant political importance", provided there is an explicit agreement between the two arms of the budgetary authority.

The Commission while making an effort to improve the management of the financial framework is unduly restrictive with regard to concentration of heading 3 on five policy areas. The very purpose of this heading is to allow for experimentation with new policies promoting EU integration and employment. Giving priority to five policy areas introduces a limitation which counteracts the objective of increased flexibility without increasing the positive impact of heading 3. Furthermore, the attempt to introduce flexibility between headings and from one year to the next is timid and raises a number of questions pertaining to the role of spending committees.

(1) See article 10 and 21 of the Interinstitutional Agreement of 29 October 1993.
(2) Article 30(2) of draft Regulation 98/0090 laying down general provisions on the Structural Funds.
Restricting the possibility to exceed the ceiling of headings 3 or 4 "for the same purpose" to one year would create a "stop - go" phenomenon detrimental to new policy-initiatives or preparatory measures that are supported by a legal base, since their financing for subsequent years would depend upon the existence of unused appropriations under the same heading. Introducing these proposals in the IIA raises the issue of appropriate working methods between the committee on budgets and spending committees. Given that flexibility for shifting resources between headings and from one year to the next would take place outside the annual budgetary procedure, it is crucial that the EP adopts a structured framework - eventually in the form of an internal code of conduct - that provides for proper deadlines and clear procedures associating the committee on budgets and spending committees.

IV. Legal bases

The recent ruling of the European Court of Justice on case C-106/96 (The UK and others against the Commission) concerning the "Community action programme to combat social exclusion" and the subsequent interpretation of that ruling by the Commission, have put in jeopardy the execution of several budget lines in the social area. The only exception to the requirement of a dual legal basis concerns the (temporary - up to two years) funding of "non-significant actions, namely pilot projects or preparatory actions".

Given that absence of an agreed definition by the two arms of the budgetary authority of "non-significant actions" the EP should move swiftly to provide legal certainty for the execution of the budget for 1998 and subsequent years. An interim agreement could then be included in the new IIA which contains specific proposals for legal bases. In doing so the EP has to keep the door open for proposing innovative and preparatory actions in areas where the provision of a legal base rests solely with the Council.

The Commission proposes three exceptions to the general rule of a dual legal base. These concern:
- autonomous operations, ie generic measures conducted by the Commission under the Treaty and for which the Treaty alone constitutes an adequate legal basis;
- items with an allocation below EUR 5 million, with due regard to the principle of budgetary specification;
- preparatory measures and pilot projects with a lifespan of not more than two years.

It seems that the above proposals could, with some adjustments, provide the basis for an agreement on what constitutes "non-significant action".

VI. Conclusions

The Committee on Employment and Social Affairs calls on the Committee on Budgets, as the main committee, to take duly into account the following positions:
1. Reiterates its position that the new financial perspective for the period 2000-2006 should provide, stable and guaranteed financial resources enabling the EU to achieve sustainable economic development, a higher degree of economic and social cohesion, a successful enlargement and promoting a high level of employment compatible with its obligations and the aspirations of its citizens;

2. Stresses that the objective of enlargement cannot be implemented to the detriment of economic and social cohesion. Asks consequently to safeguard the special status of expenditure for the Structural Funds under heading 2 as a "spending target" and opposes any attempt to further restrict the limited resources provided in the new Financial Framework for the period 2000-2006; furthermore, if measures currently financed from the Structural Funds are to be covered from the EAGGF-Guarantee Section under the agricultural guideline, then related appropriations should be treated on the same footing as other Structural Fund expenditure under heading 2 and therefore be considered as non-compulsory expenditure;

3. Considers that a clear distinction needs to be made between expenditure relating to the Union and expenditure relating to acceding countries;

4. Calls for employment to become the focal point of heading 3 and considers the limited definition of five priority areas under that heading as inappropriate and restricting the function of heading 3 as the test-ground for experimentation with new policies promoting employment creation and EU integration;

5. Favours the introduction of increased flexibility for shifting appropriations between headings and from one year to the next but severely criticises the restriction of shifting resources between headings to one year "for the same purpose", since this would create a "stop - go" phenomenon detrimental to new policy-initiatives or preparatory measures whose financing in subsequent years would depend upon the existence of unused appropriations under the same heading;

6. Calls on the Committee on budgets to propose a code of conduct establishing a framework that provides proper deadlines and clear procedures for the association of spending committees in the implementation of provisions of the new Interinstitutional Agreement relating to flexibility for shifting resources between headings and from one year to the next;

7. Strongly disagrees with the very narrow interpretation given by the Commission to the Court of Justice ruling on case C-106/96 and its implications for the execution of several budget items that make a real difference for the citizen; expects, consequently, the Committee on budgets to negotiate swiftly with the Commission and the Council the conclusion of an interim agreement on the definition of "non -significant action" and ensure the smooth execution of projects and actions covered by these items.
21 January 1999

OPINION
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Regional Policy

Draftsman: Mr Reinhard Rack

PROCEDURE

At its meeting of 25 June 1998 the Committee on Regional Policy appointed Mr Rack draftsman.

It considered the draft opinion at its meeting of 20 January 1999.

At the latter meeting it adopted the following conclusions unanimously.

The following were present for the vote: Arias Cañete, chairman; Howitt, Napoletano and Decourrière, vice-chairmen; Rack, draftsman; Berend, Botz, Castagnède (for de Lassus), Crampton, David (for Hume), Escola Hernando, Girão Pereira, Gutiérrez Díaz, Hatzidakis, Karamanou, Kellett-Bowman, Miller (for Darras), Myller, Ojala (for Novo), Vallvé, Varela and Virrankoski (for Monfils).

CONCLUSIONS
The Committee on Regional Policy calls on the Committee on Budgets to take account of the following conclusions, under the Hughes procedure:

A. whereas Article B of the EU Treaty states that a key objective of the Union shall be to promote economic and social progress which is balanced and sustainable, in particular through the strengthening of economic and social cohesion, through the creation of an area without internal frontiers and through the establishment of economic and monetary union,

B. mindful of the horizontal nature of the cohesion principle which, according to Article 130b of the EC Treaty, should shape all Community policies,

C. mindful of the major challenge which economic and social cohesion will have to face when the EU is enlarged to include various countries of Central and Eastern Europe and Cyprus, since these are countries whose development is lagging behind considerably by comparison with the fifteen present Member States,

1. Believes that in order to fulfil the Treaty’s basic principles, a key objective of the new financial perspective for the period 2000-2006 should be to strengthen economic and social cohesion with regard to both expenditure policies and the resources system;

2. Considers that the Commission proposals on the establishment of a new financial perspective for the period 2000-2006 and on the renewal of the Interinstitutional Agreement(1) constitute a reasonable working basis, and draws attention to Parliament’s approval of the Commission proposal to allocate 0.46% of EU GNP annually for structural actions during the period 2000-2006 in its resolution of 19 November 1998(2);

3. Notes that under the Commission proposals the funding for heading 2 (Structural operations) in the next financial perspective would fall by 1.4% annually in the course of the period to stand at 0.39% of Community GNP in 2006, for the present Member States, whilst the remaining headings would enjoy increases;

4. Believes that such a fall will entail a reduction in the effort to promote economic and social cohesion; takes the view, therefore, that where structural operations are concerned, the next financial perspective will need to maintain the current level of intervention, even bearing in mind the legislative reform of the financial instruments of cohesion policy;

(1) COM(98)0164; COM(98)0165
(2) A4-0391/98

DOC_EN\RR\377\377124 - 131 - PE 230.380/fin./Part C
5. Calls for the appropriations under heading 2 of the financial perspective (Structural operations) to remain an expenditure target, and believes that two implications arise from this:

a) extending the application of Article 21 of the Interinstitutional Agreement of 29 October 1993\(^{(1)}\), under which Parliament and the Council undertake to respect the allocations of commitment appropriations provided in the financial perspective for the Structural Funds and the Cohesion Fund;

b) extending the application of the second paragraph of Article 10 of the Interinstitutional Agreement, under which the two arms of the budgetary authority undertake to authorise the transfer to subsequent years, in excess of the corresponding ceilings on expenditure, allocations for the Structural Funds and the Cohesion Fund not used in the previous year;

6. Reaffirms the position adopted by Parliament in its resolutions of 19 November 1998\(^{(2)}\) with regard to the new system of financial management of the Structural Funds and the Cohesion Fund; believes that, on the basis of the said resolutions, the option of re-including appropriations for structural operations in the budget in subsequent years will continue to constitute a useful means of ensuring consistency between the multi-annual programming of operations and the course they take in practice, and the financial planning determined by the financial perspective and thus decided on before the programmes are drawn up;

7. Approves the Commission proposal to apply a constant 2% deflation index to Structural Funds appropriations and likewise, if need be, to revise the said index by 31 December 2003 at the latest, taking account of actual inflation;

8. Supports the creation of a specific heading for pre-accession appropriations, including those intended for the structural pre-accession instrument which figure in the original Commission proposal under heading 2;

9. Takes the view that the resources from the EAGGF Guarantee Section used in funding Objective 2, including those under heading 1 of the financial perspective, should be deemed an expenditure target and non-compulsory expenditure, thereby enabling them to be incorporated into Structural Funds programming in a consistent manner.

\(^{(1)}\) OJ C 331, 7.12.1993
\(^{(2)}\) A4-0391/98; A4-0395/98
24 November 1998

OPINION
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Transport and Tourism

Draftsman: Mr Mathieu Grosch

PROCEDURE

At its meeting of 21 April 1998 the Committee on Transport and Tourism appointed Mr Grosch draftsman.

It considered the draft opinion at its meeting of 24 November 1998.

At that meeting it adopted the following conclusions unanimously.

The following were present for the vote: Bazin, chairman; Grosch, draftsman; Camisón Asensio, Castricum, Donnay, Koch, Megahy, Piecyk, Schierhuber (for Sarlis), Schlechter and Stockmann (for Sindal).

I. THE COMMISSION PROPOSAL
The Commission communication comes in response to the provisions of the Interinstitutional Agreement of 23 October 1993 on budgetary discipline and improvement of the budgetary procedure, which require a proposal for a new financial perspective to be presented before 1 July 1998. It envisages increased expenditure for a Union comprising 15 Member States, including pre-accession measures for the applicant countries. However, it must also ensure that the resources specifically earmarked for enlargement of the Union are available, under the conditions set out in the communication 'Agenda 2000'.

The financial perspective table for the period 2000-2006 will form an integral part of the new Interinstitutional Agreement, and negotiations are in progress between the two arms of the budgetary authority, i.e. the Council and the European Parliament, with a view to adopting the new framework for the European Union’s potential activities in the light of the challenges facing it over the next few years.

The most important elements of the communication include the concern for a greater concentration of spending on internal policies (heading 3) and the indication of five main priorities: trans-European networks, research and innovation, education and training, the introduction of environmentally friendly technologies and measures to support small businesses.

The Commission indicates, in particular, that the financing requirements of transport networks should rise appreciably over the next few years. The rate of Community funding of investments, which has been held at 4-5% over the current period, should rise to at least 10% in future so that projects currently in progress can be accelerated and so that new projects, including those relating to traffic management, can be started.

II. COMMENTS ON THE CURRENT NEGOTIATIONS

In his Working Document No 1, the rapporteur of the Committee on Budgets, Mr Colom i Naval, stated that Parliament realised that increasing the own resources ceiling above 1.27%, or keeping it at that level, was not an end in itself, but had to be linked to the Union’s real needs; in addition, at a time when Europe was increasing its internal integration through EMU and opening up to other European countries, the development of common policies had to be continued and stepped up. He also considered that it was necessary to make some changes to the structure of spending in order to achieve a better use of resources.

According to Working Document No 3 by the rapporteur of the Committee on Budgets, the financial allocations laid down as part of a legislative framework - within the limits set out in the 1995 joint declaration - fully retained their value, even within the headings. The Interinstitutional Agreement should nevertheless make some provision for flexibility between categories. He stated that it should be possible to amend ceilings during the budgetary procedure under the following conditions:
(a) defining a maximum quantity or percentage for transfer;
(b) not exceeding the annual total of ceilings for commitment appropriations. In real terms this meant that, during the annual procedure, if there were no margin under the ceilings of one category, the budgetary authority could enter the appropriations considered justified provided that the total for commitment appropriations laid down in the financial perspective were observed;
(c) respecting the allocation for each category in the period covered by the financial perspective, which meant that, if appropriations were taken from one category during one financial year, they should be returned during the following year or years.

In Working Document No 4, it was stated that the Commission proposed to provide in the new agreement for part of any positive budget balance from the previous financial year to be used to cover large needs for a significant policy area to be determined in advance.

The rapporteur of the Committee on Budgets supported the possibility of it being agreed that the budgetary authority could adopt commitment appropriations outside financial perspective ceilings up to a maximum of, say, EUR 500 million, provided that the appropriations concerned were offset by a corresponding underspend in the previous budget and were at least equal to the positive balance from the previous financial year.

It was also stated that the Commission proposed that the principle set out in the Joint Declaration of 6 March 1995 that the institutions undertake to comply during the budgetary procedure with the reference amounts set in the legislative codecision procedure should be maintained. At the same time it was proposed that the two arms of the budgetary authority be given the possibility of departing from those amounts, by common accord, during the conciliation procedure by up to around 10% of the amounts concerned.

*Your draftsman supports the idea of making budgetary policy more flexible and effective. He nonetheless stresses the fact that such flexibility should be used very cautiously, particularly where compliance with the reference amounts laid down by legislative codecision is concerned. In this context, he is convinced that this aspect should be examined jointly by the Committee on Budgets and the responsible committee, providing for the possibility of the latter adopting a binding opinion prior to any final decision. An amendment to the European Parliament’s Rules of Procedure to that effect would undoubtedly be timely.*

The purpose of this proposal is the desire to encourage a coherent synthesis of the overall view of the Committee on Budgets and the detailed knowledge of common policies residing with the responsible committees.

Since an in-depth debate on this topic is desirable, it would, perhaps, be advisable for the rapporteur of the Committee on Budgets to be able to attend the hearings held by the committees most concerned by the Agenda 2000 process, prior to the concluding phase of the negotiations on the Interinstitutional Agreement.
CONCLUSIONS

The Committee on Transport and Tourism calls on the Committee on Budgets, as the committee responsible, to incorporate the following conclusions into its draft report:

The Committee on Transport and Tourism:

1. Approves the Commission proposal regarding the advisability of stimulating growth and employment via an increase in the ceiling on resources for trans-European networks, which play a key role in the growth and rationalisation of freight and passenger traffic in the internal market and in the links between the Union and its neighbours; it supports the idea that the negotiations on the financial perspective and the Interinstitutional Agreement should set out clear lines to ensure the feasibility of this proposal;

2. Stresses that, in the presentation of the financial perspective, it would be advisable to highlight the most important categories within heading 3 on internal policies, namely trans-European networks and research, so as to signal the European Union’s forward-looking commitment to these two sectors, which are vital for competitiveness and for sustainable development;

3. Considers that it is essential to boost the confidence of public and private investors with regard to projects of common interest, by signalling a steady, certain increase in Community funding for trans-European networks;

4. Supports the need to lay down a minimum rate of growth in funding for trans-European network, in relation to progress in their implementation, below which it would not be permitted to fall and, on the contrary, to provide mechanisms for flexibility to allow, as soon as possible, the channelling of subsequent resources from other budget lines to promote the completion of projects put forward;

5. Endorses the introduction of a degree of flexibility into the budgetary procedure; considers, nonetheless, that where the amounts laid down for multiannual programmes adopted under the codecision procedure are concerned, the instrument of setting aside legislative decisions should be used to safeguard priority categories such as trans-European networks and research;

6. Supports the idea of including in the Interinstitutional Agreement the possibility of financing budget lines without a legal basis, provided that those lines are entered for limited amounts and that they play a connecting or coordinating role in relation to other budget lines with a legal basis.
26 January 1999

**OPINION**
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Culture, Youth, Education and the Media

Draftsman: Mrs Katarina Daskalaki

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**PROCEDURE**

At its meeting of 23 June 1998 the Committee on Culture, Youth, Education and the Media appointed Mrs Katarina Daskalaki draftsman.


At the last meeting it adopted the following conclusions unanimously.

The following took part in the vote: Pex, chairman; Palm, vice-chairman; Daskalaki, draftsman; Guinebertière, Günther (for Fontana), Heinisch, Kuhne, Monfils, Pack, Perry, Ryynänen, Sanz Fernandez, Tongue and Vaz da Silva.

**BACKGROUND**
In its communication ‘AGENDA 2000 : For a stronger and wider Union(1)’, the Commission proposes a financial frame of reference for the period 2000 to 2006 in anticipation of enlargement. According to the Commission, it is possible to provide for the development of Community policies in the existing Member States and, under certain conditions, finance the accession of a number of countries from Central and Eastern Europe and Cyprus without changing the own resources ceiling at 1.27% of GNP until 2006.

The Commission has also drawn up a communication on the establishment of a new financial perspective for the period 2000-2006(2) which is based on the same long-term economic forecasts as ‘AGENDA 2000’.

In analysing the financial perspective for the six sectors of Community intervention, the Commission communication deals with categories of spending which come within the remit of our committee, notably education and training, as part of internal policies.

Our committee also takes an interest in another category of spending, namely spending on the EU’s cultural policy which is unfortunately totally omitted from the Commission’s communication. This, of course, raises many questions and in particular: how can we talk about the financial perspective of the European Union for the period 2000-2006 without referring to culture at all?

A. Culture

As regards culture - which, as we have stated above, is not one of the sectors of Community intervention analysed in the Commission’s documents - we should like to reiterate the consistent view of the European Parliament’s Committee on Culture, which is based on Article 128 of the Treaty on European Union.

Article 128 provides that action by the Community shall be aimed at encouraging cooperation between Member States and, if necessary, supporting and supplementing their action in specific areas of cultural policy. The Treaty of Amsterdam, moreover, strengthens Article 128 by adding to the Union’s objectives respect for and the promotion of cultural diversity.

If there is to be a genuine European cultural policy and if Article 128 of the Treaty is to have any real substance, there must be an awareness at Community level of the role of culture in developing a united Europe and the resources necessary for attaining the objectives of Article 128 must be guaranteed.

(1) COM(97)2000
(2) COM(98)0164 final
Numerous Commission surveys prove the enormous scope for job creation in the cultural industry and the general importance of cultural actions for social cohesion, economic development, the enhancement and modernisation of the regions, the strengthening of local identity and the development of tourism in the European Union.

Furthermore, in accordance with the principle which is spelt out very clearly in Article 128(4) of the Treaty, culture should be recognised and taken into account as a parameter in other Community actions and policies.

In its communication of 17 October 1997 on the integration of the cultural dimensions in Community policies and the communication entitled 'Cohesion Policy and Culture: A Contribution to Employment' (1), the Commission confirmed that culture as a factor of regional development comprises not only the preservation and development of cultural goods (i.e. the cultural heritage), but also productive investments in the cultural industry and cultural products.

Contrary to all the above principles, the Commission fails to make even one reference to culture in its analysis of the financial perspective for the period 2000-2006.

Furthermore, as part of the current review of the ERDF regulations, plans are afoot to abolish the existing Article 10 which has allowed the adoption of pilot projects of an innovative nature with a budget of ECU 15 million in the cultural sector for the 1997/98 period. This would jeopardise cultural actions in the sectors of the cultural heritage, tourism and craft industries under the Structural Funds.

B. Education and training

In adopting the orientations to be followed by the Union in the field of employment, the European Council in Luxembourg stressed the need to consider education and training an essential parameter for development and employment.

The European Parliament named the development of a Europe of Knowledge(2) as a budgetary priority for 1999. In adopting the proposals put forward by the Committee on Culture, Youth, Education and the Media and the Committee on Employment and Social Affairs, the European Parliament voted in plenary sitting in favour of increasing the budget for the Socrates, Youth for Europe and Leonardo programmes (see tables below). If all Parliament's demands are accepted, the overall endowment for these programmes will be increased to 3800 million euros for five years, i.e. a mere 0.5% of the

(1) COM(96) 512, OJ ...  
Community budget. It should also be pointed out that the target group for whom the education and training programmes are intended is constantly increasing, so that some 80% of citizens of the Union can theoretically apply to participate.

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<tr>
<td>Socrates</td>
<td>920</td>
<td>1400</td>
<td>2000</td>
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<tr>
<td>Youth for Europe</td>
<td>126</td>
<td>600</td>
<td>800</td>
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<td>Voluntary service</td>
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<td>Leonardo</td>
<td>860</td>
<td>1000</td>
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<td>Total</td>
<td>1966</td>
<td>3000</td>
<td>3800</td>
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In its communication on the establishment of a new financial perspective for the period 2000-2006, the Commission remarks that the new programmes in the fields of education and training must focus on tapping the potential offered by European cooperation to enhance lifelong learning, developing the skills and abilities required in a society based on globalisation of knowledge and enhancing European citizenship.

The Commission also states how these objectives will be attained: by increasing the mobility of students and pupils, using new technologies and promoting language skills etc.

However, all the above objectives cannot, in our opinion, be attained by an increase from ECU 1966 million, as provided in the above programmes (see table) for the years 1995 to 1999, to ECU 3000 million for the years 2000 to 2004.

We therefore repeat the European Parliament’s proposals as adopted in plenary sitting on 5 November 1998.

CONCLUSIONS
The Committee on Culture, Youth, Education and the Media calls on the Committee on Budgets, as the committee responsible, to incorporate the following conclusions in its report:

1. The cultural dimension of the Community must be included in all Community policies, in accordance with the letter and spirit of the Treaty on European Union (Article 128). The Committee on Culture therefore considers unacceptable the total absence of any reference to culture in the Commission’s communication on the establishment of a new financial perspective for the period 2000-2006. The creative industries (film, books, music, etc.) represent the fastest-expanding area of the economy and are an important source of job creation.

2. Culture constitutes a key element of social and economic cohesion, European citizenship and regional identity and a magnet for inhabitants, tourists and investors in specific regions. In order to provide a guarantee for quality development, a fresh reference should be made to culture and creative industries in the new Structural Fund regulations as a source of economic value, social development, employment and geographical attractiveness and it must be included, as a matter of priority, among the criteria of eligibility for plans in the general principles governing the Structural Funds.

3. A minimum percentage of the Community budget should be devoted to Community cultural programmes in order to enable them to achieve satisfactory results. The Committee on Culture’s aim is that the new cultural perspective for the years 2000-2006, 370 million euros (1 euro per inhabitant of the European Union for seven years) should be devoted to culture, in order to secure the long-term planning of cultural actions which will thus be more effective. The Commission should elaborate a report detailing all projects in 1998 of a culture nature supported by EU structural funds.

4. The Committee on Culture reiterates its position that the sum of 167 million euros proposed by the Commission for the ‘Culture 2000’ programme corresponds to an increase of a mere 3% annually in the funds allocated to existing cultural programmes and insists that the relevant funds should be increased to at least 250 million euros.

5. European audiovisual policy should also be promoted with particular reference to the new proposal for the MEDIA III programme (development, production, distribution and training). The establishment of a European audiovisual area would strengthen European identity and citizenship, allow a greater increase in employment and make new forms of cultural expression possible. For this reason, and in view of the importance of the sector and its huge growth potential, the Committee on Culture, Youth, Education and the Media calls for appropriate funding for the MEDIA III programme and other audiovisual projects.
6. The educational, training and youth programmes of the European Union will be a decisive element in securing the competitiveness of industry, employment and a smooth transition for the citizens of the Union to Economic and Monetary Union. The Committee on Culture calls for an increase in the budget for the Socrates, Youth for Europe and Leonardo programmes to a total sum of 3800 million euros for the period 2000-2004, corresponding to a mere 0.5% of the Community budget for the period 2000-2006.

7. The Committee on Culture considers that, given the positive impact which educational, training and youth programmes can have, the number of applications and the population group to which they are addressed (some 80% of citizens of the Union could theoretically benefit from the programmes but only some of the applicants can do so on account of the inadequate budget) and the number of third countries which will participate, the budget for the educational, training and youth programmes within the framework of the new financial perspective for the period 2000-2006 should correspond overall to at least 1% of the budget of the European Union.

8. With regard to external initiatives and, in particular, the PHARE programme, the latter should ideally include cultural activities.

9. The Committee on Culture, Youth, Education and the Media urges the Council Presidency to include a reference, in the final declarations of the next European Council, to the importance of the role of culture in the process of European integration.
OPINION
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Development and Cooperation

Letter from the committee chairman to Mr Samland, chairman of the Committee on Budgets

Brussels, 21 January 1999

Dear Mr Samland,

The Committee on Development and Cooperation considered the above subject at its meeting of 19 January 1999. At its meeting of the 21 January 1999 it adopted the following conclusions(1).

In October 1997, the Committee on Development and Cooperation drew up an initial opinion on Agenda 2000 (PE. 224.109, draftsman: Mrs Lööw). The Commission has now put forward a number of legislative proposals, including: the new Financial Perspective, covering the period 2000-2006, and the new Interinstitutional Agreement (IIA). These proposals have the very highest priority for this committee.

As regards External Action (Category 4) the committee notes that the key features of these proposals are as follows:

(1) The following took part in the vote: Rocard, chairman; Carlotti, Castagnède (for Hory), Corrie, Cunningham, Girão Pereira (for Andrews), Maes, Maij-Weggen (for Baldini), Martens, Paasio, Lord Plumb, Robles Piquer, Telkämper and Verwaerde.
- Category 4 expenditure would rise from 6.87 billion Euro in 2000 to 7.9 billion Euro in 2006, at a rate of about 2% per year.

- a constant 1.56 billion Euro of this would be earmarked for pre-accession aid to countries in central and Eastern Europe.

- from a current figure of 346 million Euro, the separate emergency aid reserve would fall to 200 million Euro (the balance of 146 million being transferred to the operational budget lines)

The Commission have not presented any detailed proposals on how the external assistance budget should be divided for the years 2000-2006 (other than by proposing a fixed allocation for pre-accession aid). They have, however, set out in narrative form what they consider to be the main priorities. The Commission propose that, as a top priority, the EU should strengthen its cooperation with its closest neighbours, including pre-accession aid, the former Soviet Union, former Yugoslavia and Albania, the eastern and southern Mediterranean, the Middle East and the countries of north Africa.

Only after these priorities does the Commission state that this should not be at the expense of cooperation with other parts of the world or other external action. The Committee on Development and Cooperation has every reason to be suspicious at this weak formulation on Europe’s commitment to the developing countries, since the Commission and Council are in the habit of proposing substantial cuts to these budget lines. In the past few years, their annual budget proposals have respected priorities along the same lines as they are now suggesting but have not respected the need to do so without reducing cooperation with other parts of the world. It is only after the intervention of the European Parliament that our responsibility towards development programmes in the South has been upheld.

Alarmingly, the geographical priorities now proposed are exclusively targeted at the Union’s closest neighbours. Indeed, the Commission states that the need to step up cooperation with these countries will become even more pressing in the future “given the proximity of some of these countries to the applicant countries”.

The Committee on Development and Cooperation feels very strongly that there must be a priority, spelled out in the Financial Perspective/IIA, for development cooperation based on development needs and poverty reduction. Surely, such criteria must be at the centre of any EU development policy, given that they are included as such in the Treaty.

The development cooperation objectives of the Treaty include a specific reference to the most disadvantaged countries and make an unambiguous commitment to the campaign against poverty in the developing countries.
Moreover, the EC and Member States have all subscribed to the International Development Strategy set in 1996 by the Development Assistance Committee (DAC) of the OECD. At the heart of this strategy are seven international development targets, foremost among which is the goal of halving the proportion of people living in extreme poverty by the year 2015.

It must be stressed that, at present, the EU’s poverty reduction commitments are not sufficiently taken into account.

As a top priority, there should be a specific commitment to direct a larger share of Category 4 resources to the poorest countries. At present, the proportion of EC assistance going to these countries is lower than for other donors and is likely to decline even further in the next few years due to decisions already taken.

As a striking example of this, the OECD points out that, per capita, the EC provided $0.7 to low income countries in 1996, $1.4 to middle income developing countries and $4.5 to other countries (primarily eastern Europe and the former Soviet Union).

It is a fact that the major recipients of EC official development assistance (ODA), which a decade ago were poor countries in Africa and Asia, have increasingly become better off countries in the southern Mediterranean and the Middle East.

Particularly, a larger share of the EC’s official development assistance should go to Low Income Countries. A clear political commitment should be entered in the IIA so that: with respect to Category 4 expenditure, the institutions will increase year on year the proportion of EC official development assistance going to Low Income Countries.

The European Parliament should argue for a Category 4 target proportion to be spent in LICS starting at, say, 40-45% and rising over the period of the financial perspective to 65-70%, bringing the Commission’s distribution of aid resources more in line with its poverty reduction commitments and, for that matter, with the practices of Member States.

The Development Committee has always advocated a fair balance of EU expenditure between regions and within Financial Perspectives. As is clear, the Commission’s proposal fail to live up to this. In looking at levels for various regions, we need also to take into account the difficulties of implementation of funding for the major external programmes.

The PHARE, MEDA and TACIS programmes have a poor rate of turning appropriations into payments and huge overhangs of commitments. In line with the reasoning on Low Income Countries above, resources to these major programmes could be adjusted to more realistic levels and the balance added to the programmes in poorer countries where there is proven absorptive capacity.
The Commission is proposing to cut the Emergency Aid Reserve by EURO 150 million. It goes on to say that this needs to be backed by a corresponding increase for the operational lines regarding humanitarian aid. The Committee on Development and Cooperation has on many occasions advocated a transfer of this kind as it allows for quicker responses to humanitarian crises. Moreover, the committee has always been of the opinion that such a transfer must be neutral with respect to other lines. On this occasion, the Committee on Development and Cooperation wishes to make clear that such a proposal must be accompanied by a corresponding increase of the Category 4 financial ceiling. If this is not the case, other important development lines could come under severe pressure, jeopardising their very existence. In such a scenario, the proposal is unacceptable and, therefore, clear guarantees must be sought on this issue.

As regards the question of "flexibility" the Development Committee recognises that a Financial Perspective covering as much as seven years, should that be the duration decided, makes it difficult to foresee future financing requirements in detail. From this point of view, establishing criteria for handling shifts in financing requirements, without having to revise the entire Financial Perspective, makes sense. On the other hand, it must be stressed that EU countries have a long-term commitment (which is predictable for the whole period) to the development priorities indicated above and have agreed that their contribution to development policy should eventually reach 0,7% of GNP. If the route of "flexibility" is taken, the criteria established for activating it must not be set in such a way that it would be possible to transfer funds originally destined for development cooperation and reallocate those to, for example, internal policies within the EU.

Human resources to implement Category 4 actions is limited and, especially compared with Member States, external action programmes are understaffed. The Financial Perspective needs to address this issue. Staffing levels, and responsibilities in order to carry out programmes effectively, must be assured not only for Brussels headquarters but, particularly, within the framework of a more decentralised management structure, for external delegations. This is especially the case for ACP delegations which have never had the possibility, for legal reasons, to take on extra qualified staff through the so-called "Liikanen facility".

Conclusions:

The Committee on Development and Cooperation,

1. Is deeply concerned that the draft New Financial Perspectives make the resource needs of Least Developed and Low Income Countries a lower priority than those of pre-accession and richer middle income countries;

2. Deplores the fact that only 41 per cent of EC aid is allocated to Least Developed and Low Income Countries. This is 15 per cent lower than the EU member states’ average bilateral contribution of 56 per cent aid allocation to the Least Developed and Low Income Countries;
3. Reminds the Commission and Council that the EU are committed to development cooperation objectives set out in the Maastricht Treaty, and Council resolutions. Stresses that the EC and Member States have also subscribed to international development targets and strategies agreed at UN Conferences, and by the Development Assistance Committee of the OECD. The first and foremost of these targets is to halve the number of those living in extreme poverty by the year 2015; considers that the Commission proposals’ failure to take this top priority into account is both worrying and politically damaging;

4. Strongly believes that there needs to be a firm commitment to Low Income Countries (LICS), which include the Least Developed Countries, in the Financial Perspective; is adamant that this priority needs to spelled out in the new IIA;

5. Firmly believes that this commitment should include a target proportion of Category 4 to be spent in Low Income Countries; Insists that this target proportion must at least equal the average member state allocation of aid to Low Income Countries rising to a level of 70 per cent to match the contributions of almost half the member states to Low Income Countries;

6. Supports the proposals made to extract pre-accession aid from Category 4 and enter it into a separate expenditure category, in order to make Category 4 expenditure more transparent and avoid incoherence of the EU’s political, humanitarian, development and economic goals;

7. Agrees with the principle of transferring part the Humanitarian Aid Reserve to the operational budget lines. However, wishes to make clear that such a transfer must be accompanied by a corresponding increase in the Category 4 financial ceiling. Resources directed towards development priorities and budget lines must not be cut as a consequence. The flexibility of humanitarian donations must also be safeguarded in order that the European Union can continue to offer humanitarian aid quickly and effectively;

8. Believes that there should be a guarantee in the Financial Perspectives to provide adequate humanitarian aid to respond to humanitarian need, and the UN’s appeals for relief, and in accordance with the EU’s obligation to uphold the basic rights of civilians in conflict and/or disasters, as set out in the Geneva Conventions, and UN Human Rights Law;

9. Reiterates the fact that the PHARE, MEDA and TACIS programmes have a poor rate of turning appropriations into payments and huge overhangs of commitments, and believes that the unspent funds should be directed to spending in the Low Income Countries;

10. Is deeply worried by the part of the Commission's proposal, which indicates that the overall resource ceilings will not be raised; Taking into account that certain priorities have been set out (PHARE, TACIS, Yugoslavia, the Mediterranean), considers that this would be to the detriment of lines for developing countries. Expects clear guarantees in the new Interinstitutional Agreement that this will not be the case;
11. Is deeply concerned that the proportion of aid commitments, allocated by geographical area, going to ACP countries fell dramatically between 1992 and 1997 (the ACP group comprises most Least Developed Countries). In 1992, commitments under the EDF made up 45% of the total of regionally allocated aid. In 1997, this proportion was only 15%;

12. Points out that this problem is in reality twofold: Firstly, as noted above, budgetary resources in Category 4 needs to be reallocated. Secondly, a major effort must be made under the EDF so that the rate of commitments and disbursements is increased. Welcomes, in this respect, the improvement of the rate of EDF commitments in 1998, as communicated to the Development Committee by the Director General of DG VIII on 19 January 1999;

13. Stresses the fact that development programmes managed by the Commission are understaffed with respect to funds managed (comparison with any of the Member States); believes that urgent measures must be taken to remedy this situation;

14. Stresses that the criteria for activating a certain amount of "flexibility" of movement of resources, should this be the strategy adopted, must not jeopardise the EU's commitment to reaching agreed development targets and that development programmes in the poorest countries continue to be adequately resourced; takes the view that "flexibility" should primarily refer to the overall financial ceilings for each category and the resulting margins within each category rather than referring to the movement of resources from one category to another;

Yours sincerely

(s) Michel Rocard
25 November 1998

**OPINION**
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Civil Liberties and Internal Affairs

Draftsman: Ernesto Caccavale

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**PROCEDURE**

At its meeting of 23 July 1998 the Committee on Civil Liberties and Internal Affairs appointed Mr Caccavale draftsman.

It considered the draft opinion at its meeting of 23 November 1998.

At the latter meeting it adopted the following conclusions unanimously.

The following were present for the vote: d’Ancona, chairman; Reding, vice-chairman; Andersson (for Ford), Berger (for Crawley), Bontempi, Cederschiöld, Deprez, Lambraki, Nassauer, Schaffner and Schmid.

1. **Introduction**
As the current financial perspective runs out in 1999, the Commission presented a Communication on 18 March 1998 on the establishment of a new financial perspective for the period 2000-2006. In parallel with this it also presented a working document with proposals for a new interinstitutional agreement on budgetary discipline.

The financial perspective was drawn up for the fifteen European Union Member States and is intended to provide a wide enough margin for the financing of enlargement. As in Agenda 2000, the working hypothesis is the accession of five Central and Eastern European countries and Cyprus in 2002. At the actual time of accession the financial perspective is to be adjusted to the level of expenditure arising therefrom.

In drawing up the financial perspective the Commission based itself on the same economic assumptions as in Agenda 2000, i.e. an annual GNP economic growth rate of 2.5% in the Member States. For the applicant countries the Commission took a medium-term annual economic growth rate of 4%. The political aim in establishing the financial perspective was to finance enlargement while maintaining the current own resources ceiling of 1.27% of GNP. The overall ceiling on appropriations for commitments will rise by an average annual rate of only 0.2%, including pre-accession aid, leaving a growing margin available beneath the own-resources ceiling to cover the cost of accession.

The financial perspective comprises six headings: agriculture, structural operations, internal policies, external action, administrative expenditure and the reserves. Pre-accession aid is to be financed from three headings (agriculture, structural operations and external action) and identified under a specific subheading in each of the three headings concerned. The Commission also proposes to build more room for flexibility into the handling of the financial perspective, so that a transfer of appropriations could take place up to a limited level between headings 3 (internal policies) and 4 (external action) without the financial perspective being changed.

2. Internal policies - cooperation on justice and home affairs

The ceiling for the Internal Policies heading, which is particularly important to the Committee on Civil Liberties and Internal Affairs because most policies in the area of justice and home affairs are funded from it, will not initially be raised in the year 2000 in view of the margin that the 1999 budget will probably leave beneath this ceiling. By 2006 it will have been raised by a total of EUR 1.2 billion, representing an annual rate of increase of 2.5%, the highest in the financial perspective.

In its remarks on the Internal Policies heading the Commission makes the following observation on justice and home affairs:
'The financing of operations now coming under justice and home affairs will without doubt deserve particular attention as some of them are incorporated in the first pillar as a result of the Amsterdam Treaty and in view of the principle, also embodied in that Treaty, that the Community, unless it is decided otherwise, should finance operations which still come under the third pillar.

This is quite correct and means in practice that measures for refugees, for example, will be transferred to the first pillar. Here the Committee on Civil Liberties and Internal Affairs has called repeatedly for a European Refugee Fund to be set up, starting at the latest in the year 2000.

The Eurodac system should also be funded from the Community budget. Also, measures in the field of judicial and police cooperation (N.B. Europol) should in future be financed from the Community budget. The incorporation of Schengen cooperation in the framework of the European Union also means that budgetary resources for operational expenditure on Schengen should be made available. This need was already acknowledged by the creation of a token entry budget line in the 1999 financial year.

So the Community will face considerably higher expenditure on justice and home affairs in the lifetime of the new financial perspective for two reasons. Firstly, current measures hitherto financed from the Member States’ contributions will in future have to be paid for from the budget of the European Union. Secondly, considerable extra expenditure must be expected as a result of increased cooperation in a number of policy areas (e.g. sharing responsibility for refugees and asylum-seekers) following the entry into force of the Amsterdam Treaty. This must be borne in mind in setting the ceiling for Heading 3.

3. External action - preparing for enlargement

The ceiling for the External Action heading will not be raised in the year 2000 either, but the overall allocation will rise by 2% per annum to EUR 7 900 million by 2006.

This will also include the allocations to finance the pre-accession strategy through the PHARE programme. A constant amount of EUR 1 560 million per annum will be provided over the whole period. This represents an increase of EUR 200 million as against the 1999 preliminary draft budget.

One of the main areas of action of the PHARE programme is the strengthening of democratic institutions, within which cooperation in the area of justice and home affairs is given particular emphasis. Work on measures relating to cooperation in the field of justice and home affairs began fairly late, so that many are still at the development stage. In some countries (e.g. Bulgaria, Romania and Hungary) financial support will not begin until 1998 or 1999. There is an enormous need for assistance, however. The first point to mention here is the urgent need for the principles of constitutional
democracy, particularly the independence of the judiciary, unobstructed access to justice for citizens, creation of a balance between prosecution and defence, respect for judicial rulings, an objective system of criminal prosecution and a police force governed by democratic principles, to be put into practice. All the EU Institutions regard a reinforcement of these principles of constitutional democracy as a priority. In addition, there is a need in many cases for action to improve controls at what will be the external borders, combat organised crime and corruption, and develop institutions and procedures in the areas of asylum and immigration.

It must therefore be assumed that expenditure on justice and home affairs within the PHARE programme will be significantly increased. The Committee on Civil Liberties and Internal Affairs assumes that this necessity will be borne in mind in increasing the PHARE resources.

4. Conclusions

The Committee on Civil Liberties and Internal Affairs calls on the Committee on Budgets to take account of the following points in its report:

1. Refers to the provisions of the Amsterdam Treaty whereby some measures in the area of justice and home affairs will in future come under the first pillar of the Treaty, so that the resulting expenditure will be financed from the budget of the European Union;

2. Reiterates its call for the creation of a European Refugee Fund, which would pool all resources for asylum and refugee policy on the basis of a common legal base and pursue the objective of a balanced sharing of responsibility among the Member States, and calls for the expected increase in resources needed for this Fund to be taken into account;

3. Stresses that the Amsterdam Treaty also provides for the Schengen arrangements to be incorporated in the framework of the European Union and stipulates that measures falling within the Union’s third pillar are to be financed from the Community budget, provided the Council does not unanimously decide otherwise, which will lead to a significant increase in expenditure under heading 3 Internal policies;

4. Emphasizes the importance of creating constitutional democracies in the applicant countries, with particular stress on an independent judiciary, training in civil rights and a police force dedicated to the principles of democracy, and recalls the need for action on improving border controls, combating organised crime and corruption and establishing regulated asylum procedures;

5. Calls in consequence for substantial sums for these essential tasks to be budgeted for in the PHARE programme and corresponding account to be taken in setting the ceilings of the financial perspective.
25 March 1999

**OPINION**
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Budgetary Control

Draftsman: Mr Stanislaw Tillich

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**PROCEDURE**

At its meeting of 29 June 1998 the Committee on Budgetary Control appointed Mr Stanislaw Tillich draftsman.

It considered the draft opinion at its meetings of 8 March and 24 March 1999.

At the latter meeting it unanimously adopted the following conclusions.

The following took part in the vote: Theato, chairman; Tillich, draftsman; Bösch, Colom i Naval, Dankert (for Sandberg-Fries), Fabra Vallés (for Elles), Garriga Polledo, Giansily, Holm, Kellett-Bowman, Maes (for Dell'Alba), Rack, Tappin, Virrankoski (for Kjer Hansen), Wemheuer and Wynn.

**BACKGROUND/GENERAL COMMENTS**
1. On 29 October 1993 an Interinstitutional Agreement on Budgetary Discipline and Improvement of the Budgetary Procedure was concluded between the Parliament, Council and Commission, which foresaw under paragraph 25, the presentation before 1 July 1998, of a report laying down guidelines for a new agreement which would be based upon experience gained in the interim period.

2. This newly revamped Interinstitutional Agreement which would apply for the period 2000-2006 must be seen within the context of impending enlargement and the entry into force of the Treaty of Amsterdam. Assuming agreement is reached as planned, its provisions will be employed for the first time for the financial exercise for the year 2000.

3. The rapporteur while generally endorsing the approach adopted by the Committee on Budgets, broadly supporting the arguments put forward by the rapporteur Mr Colom i Naval in a long line of working documents, would like to limit his comments to tightening control mechanisms. Raising the quality and reducing the time lags of these control instruments would lead to greater effectiveness and impact of projects managed by the Commission on behalf of the Union.

4. There are three areas the rapporteur would like to concentrate on, namely:
   a. Improvements on quality and timeliness of Commission evaluations
   b. Strengthening the impact of the discharge decision
   c. Under utilization of budget lines

*Enabling evaluation results to feedback into policy definition*

5. On a number of occasions the Commission has embarked on proposing new legislation to either extend or amend existing programmes without taking into account the findings and recommendations made by evaluations of these policies. In effect, the Commission has put Parliament in front of a "fait accompli", giving neither little possibility to apply lessons from past practice. The logical link between feedback from experience into future proposals is hereby cut. A recent example illustrates this state of affairs, where the adoption of amending regulations of the 1734/94 Regulation on aid to the Palestinians, was adopted on 21 December 1998, whilst the Commission was only able to submit a final version of its first evaluation report on Palestine, in January 1999. Needless to say, the evaluation was undertaken at considerable expense and time. Its value is minimised if it arrives too late for an informed debate between all concerned parties.
6. To avoid such incidents in future, the Commission should present to Parliament on an annual basis, the results of stock taking exercises which include qualitative as well as quantitative evaluations. The analysis of the strengths and weaknesses of the programme would help build up a picture of the success of the programme in meeting its objectives and help improve proposals on the renewals of such programmes.

**Strengthen political impact of the discharge decision**

7. Building upon recommendations made by Mrs Kjer Hansen in her draft report(1) regarding cooperation with the Court of Auditors and the discharge procedure, which was discussed in Committee but which could not go to plenary, the Committee would like to renew calls for steps to be taken to reduce the length of time it takes for the presentation of the annual report by the Court of Auditors.

8. Although this bears no direct bearing on the Interinstitutional Agreement under discussion, a reduction in the time allocated to the contradictory procedure of the increasing number of special reports of the Court of Auditors, as well as the annual report would lead to the improvement in the debate between the institutions on the future direction and impact of Community initiatives as it would allow lessons to be applied from past experience.

**Improving the fit between programmes and the annual budgetary exercise**

9. Payment plans could be drawn up on the lines of those for categories 2, 3 and 4 thereby tightening the links between the annual budgetary exercise and multi-annual plans. An example that illustrates a mismatch between multi-annual and annual plans is the PHARE Cross Border Cooperation (CBC) subprogramme, where the Commission publicly promises individual countries money under its multi-annual indicative plans, but finds it difficult to reallocate resources should it find that individual countries do not have a strong absorption capacity. To complicate matters, on top of the Inter-Reg programme running a multi-annual programme whilst PHARE projects follow an annual time horizon.

Continuing with the joint decision by the Budgets and Budgetary Control Committees, the draftsman proposes that the global transfer and the SAB be agreed on at an additional trialogue session in September, along the lines of the ad hoc procedure, in one reading. This produces synergies from the present budget and current discussions for the next budget. A situation such as that in connection with the aid to Russia could be avoided; even more efficient budget implementation is possible.

**Strengthening control by stronger coordination with spending committees**

(1) PE 228.274, 10.11.1998
10. In his capacity as rapporteur responsible for implementation figures for 1998, the rapporteur took the initiative to launch a new project to computerise monthly implementation figures to help bring greater transparency to the execution of budget lines. In a letter addressed to Commissioner Liikanen on 15 September requests were made for the systematic transmission of the justification of the under-utilisation of budget lines (for example, lack of a legal base, inaccurate estimates of requirements, etc) as well as annual information on changes to the nomenclature. Legitimate questions as regards the under-utilization of budget lines need to be answered, for example:

a. why for a number of budget lines, at the end of September of the year in question, were commitments or payments less than 10% of the total or
b. why for a number of budget lines, at the end of the year in question, were commitments or payments less than 50% of the total

11. Commission services have undertaken to address these questions in the near future with the introduction of the new SINCOM II computer system within the Commission.

12. Such a constant dialogue would help foster a climate of even greater cooperation and transparency thereby helping to alert Parliament to request the reallocation of resources from projects that are less successfully managed to those with a better track record.

CONCLUSIONS

The Committee on Budgetary Control calls on the Committee on Budgets, as the committee responsible, to incorporate the following amendments in its report:

Amendment 1

<table>
<thead>
<tr>
<th>I. BASIC PRINCIPLES OF THE AGREEMENT</th>
<th>THE COUNCIL’S PROPOSED AMENDMENT</th>
<th>PARLIAMENT’S PROPOSED AMENDMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. This Interinstitutional Agreement renews, amends and supplements the Agreement concluded on 29 October 1993. Its purpose is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters.</td>
<td>1. The purpose of this Interinstitutional Agreement is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters.</td>
<td>1. The purpose of the new Interinstitutional Agreement adopted by the Council, the Commission and the European Parliament is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters and to improve the programming of Union expenditure within the financial perspective.</td>
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</table>
### Amendment 2

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<tr>
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<tr>
<td><strong>The two arms of the budgetary authority</strong> also undertake to bear in mind the assessment of the possibilities for executing the budget made by the Commission in its preliminary drafts.</td>
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</table>
### Amendment 3

<table>
<thead>
<tr>
<th>E. Incorporation of financial provisions in legislative instruments</th>
<th>THE COUNCIL'S PROPOSED AMENDMENT</th>
<th>PARLIAMENT'S PROPOSED AMENDMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>32. Legislative instruments concerning multiannual programmes adopted under the codecision procedure <strong>may</strong> contain a provision in which the legislative authority lays down the financial framework for the programme for its entire duration.</td>
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<td></td>
</tr>
<tr>
<td>That amount will constitute a special reference for the budgetary authority during the annual budgetary procedure. <em>The budgetary authority may, however, agree to depart from the amount under the conciliation procedure provided for in Annex III.</em></td>
<td>That amount will constitute the <strong>principal point of reference</strong> for the budgetary authority during the annual budgetary procedure. <strong>[sentence deleted]</strong></td>
<td><strong>[subparagraph deleted]</strong></td>
</tr>
<tr>
<td>The Commission, when establishing the preliminary draft budget, and, failing agreement between the two arms of the budgetary authority on an amount different from the reference amount set in the legislative instrument, the institutions of last resort undertake not to depart from this amount by more than 10% either upwards or downwards.</td>
<td><strong>Should an arm of the budgetary authority consider there to be specific and duly justified reasons for departing from the reference amount set in the legislative instrument adopted under the codecision procedure, the matter shall be considered under the conciliation procedure provided for in Annex III [with a view to reaching agreement on a new amount]. As a last resort, the budgetary authority undertakes not to depart from this amount by more than 15% either upwards or downwards.</strong></td>
<td><strong>Each year, the Commission shall report to the budgetary authority on the programme's state of execution in accounting terms.</strong></td>
</tr>
</tbody>
</table>
### ANNEX III
INTERINSTITUTIONAL COLLABORATION IN THE BUDGETARY SECTOR

| This letter of amendment must be sent to the budgetary authority before the end of October. |
| If it is presented to the Council less than a month before Parliament’s first reading, the Council will as a rule consider the ad hoc letter of amendment when giving the draft budget its second reading. |

3. The purpose of the conciliation procedure is to:

(a) secure agreement between the two arms of the budgetary authority as regards the appropriations referred to in 2(a) and 2(b), including those proposed in the ad hoc letter of amendment referred to at 2 above;

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| If it is presented to the budgetary authority less than a month before Parliament’s first reading, the Council will as a rule consider the ad hoc letter of amendment when giving the draft budget its second reading. |

3. The purpose of the conciliation procedure is to:

(a) secure agreement between the two arms of the budgetary authority:
- as regards the appropriations referred to in 2(a) and 2(b), including those proposed in the ad hoc letter of amendment referred to at 2 above;

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2a. With regard to non-compulsory expenditure, the Commission must present an execution report by 15 September each year - where appropriate, accompanied by a proposal for a global transfer - and an evaluation and/or projection of the expected legal bases and the pilot schemes and preparatory measures in progress. The Council may present at this trialogue meeting the guidelines on the first reading of the budget, on the basis of the vote taken in the Committee on Budgets.

A trialogue meeting, possibly followed by conciliation, will be held at least 15 working days before the European Parliament’s first reading of the budget.

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[Council text acceptable]
26 November 1998

**OPINION**
(Rule 147)

for the Committee on Budgets

on the communication from the Commission to the Council and the European Parliament on the establishment of a new Financial Perspective for the period 2000-2006 (COM(98)0164 - C4-0304/98)

and on the report on the implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal (COM(98)0165 - C4-0305/98) (report by Mr Colom i Naval)

Committee on Fisheries

Draftsmen: Mr Fernando Pérez Royo and Mr John Joseph McCartin

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**PROCEDURE**

At its meeting of 25 June 1998 the Committee on Fisheries appointed Mr Fernando Pérez Royo and Mr John Joseph McCartin draftsmen.

It considered the working documents at its meetings of 20 July, 24 September and 25 November 1998.

At the last meeting it adopted the following conclusions unanimously.

The following were present for the vote: Fraga Estévez, chairman; Souchet, vice-chairman; McCartin, draftsman; d'Aboville, Baldarelli, Correia, Kofoed, Langenhagen, Medina Ortega and Varela Suánes-Carpegna.

**INTRODUCTION**

The communication from the Commission has been produced in response to the provisions of paragraph 25 of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure, which requires the Commission to present, before 1 July 1998, a proposal for a new financial perspective to implement Community policies in a Union of fifteen Member States and finance the pre-accession measures aimed at incorporating the applicant countries of central and eastern Europe and Cyprus into the Union.

The proposals set out in this document cover a great deal more ground than the fisheries sector alone, in that they deal with issues of great political significance such as the system and sources of financing of the Union, the volume of resources required to develop its sectoral policies, and the potential to finance the commitments arising out of the accession of new Member States.

The Commission proposal seeks to define the Union's financial basis for a period of seven years, from 2000 to 2006, applying assumptions of a GNP growth rate of 2.5% a year and a GNP deflator of 2% a
year, which would make it possible to retain the current own resources ceiling of 1.27% of Community GNP.

**The financial perspective and its impact on the Structural Funds financing the CFP**

The common fisheries policy is financed primarily from Structural Fund appropriations, and in particular those of the Financial Instrument for Fisheries Guidance (FIFG) - which since 1994 has operated as the legal instrument best suited to financing operations to adapt fisheries sector structures, including aquaculture - and the Pesca initiative, which is confined strictly to the Community and complements the FIFG.

As regards the fisheries sector, the Commission envisions a reorganisation of the existing regional policy instruments. The new EAGGF Guarantee Section would play a leading role, covering the restructuring of fishing fleets outside Objective 1 regions and the other structural operations connected with fisheries and aquaculture outside Objective 1 and 2 regions.

The funds allocated for these purposes for the period 1994-1999 amounted to ECU 2 941.81 million, of which ECU 2 679.63 million was allocated to the FIFG and ECU 262.18 million to the Pesca initiative.

Although the financial perspective for the next programming period (2000-2006) has not been completely finalised, the Commission proposal 'substantially boosts' Structural Fund allocations from EUR 208 billion for the period 1994-1999 to EUR 240 billion for the period 2000-2006.

However, the likely increase in the total allocation does not mean that the resources needed to adapt the fisheries sector will be available, insofar as the breakdown of allocations to the various Funds is not yet known. Most importantly of all, given that changes to the previous arrangements will entail reducing the number of Objectives and scrapping some initiatives (including Pesca), we shall have to wait until the new Structural Fund framework has been defined in full to see whether the new provisions cover all of the sector’s previous operations and its need to modernise as it undergoes a thorough process of adjusting to a highly competitive world economy.

Since the financial amounts involved cannot be determined until this framework has been defined and the number, scope and substance of the new structural policy instruments have been established, the rapporteur's sole option at this juncture is to express his concern at the apparent failure of the Commission proposals to react to the true situation in the fisheries sector and its needs, for the following reasons:

1. The proposals to cut the number of Objectives from seven to three and reduce the population covered by them, as outlined by the Commission, cast doubt on the future eligibility of some of the areas covered at present;

2. Redefining areas dependent on fisheries as coastal areas will mean that certain activities covered by the CFP - activities in the freshwater aquaculture sector or in processing industries in inland areas of the Member States, for instance - will no longer be eligible for aid;

3. The new-look structural policy will result in the demise of the horizontal nature of Objective 5b, under which activities had been funded on a more rational and simplified basis. Compliance with the new arrangements for Objectives 1 and 2 will mean more complicated programming, requiring national
programming for the MAGPs and regional programming for the remainder of structural operations in the fisheries sector;

4. Allocating the meagre sum of EUR 935 million from the EAGGF Guarantee Section for the entire period to finance part of the structural operations (the restructuring of fishing fleets outside Objective 1 regions and the other operations connected with fisheries and aquaculture outside Objective 1 and 2 regions) gives cause for concern, in that the Fund in question is not subject to multiannual programming, it is not strictly speaking a Structural Fund, and social partners are given no assurance that an operation will receive funding the following year;

5. The new financial management measures proposed by the Commission are also rather ill-suited to practical management in the fisheries sector. The aim of automatically cutting the level of commitment appropriations by the amount for which no payment application has been submitted within a two-year period may result in unjustified penalties for the failure to undertake activities for which the competent authorities in the Member States are not responsible, and in the loss of funds required for restructuring.

The new arrangements for the Structural Funds which the Commission would like to see adopted establish a complex system of management and increase substantially the current number of programmes in the fisheries sector. In addition, national programmes under Objective 1 will have to be coordinated with other, regional programmes under the remaining Objectives, whilst the decentralised systems in some Member States prolong the decision-making process. In these circumstances, the aforementioned automatic lapse in appropriations after a two-year period should be reviewed.

The implementation of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure - Proposals for renewal

Paragraph 25 of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure requires the Commission to present a report to the budgetary authority on how the provisions of the Agreement have performed, with a view to examining improvements which may needed to it in the light of the experience amassed since it came into effect.

The Commission report reflects on a number of macroeconomic issues of great importance to the financing of the Union’s policies over the coming years, with regard both to income and its level in relation to gross domestic product, and to the expenditure required to implement Community sectoral policies.

The process of amending the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure is closely allied to the problem of the future financing of the Union, reform of the Structural Funds and the budgetary implications of the planned accession of new Member States. The outcome of the debate on these highly important political matters within the framework of Agenda 2000 will determine the future of the European Union itself.

Besides dealing with these political and budgetary issues of such singular importance to the institutions, Commission document COM(1998) 165 final seeks to draw on the experience acquired in recent years to rationalise, simplify and update all interinstitutional agreements and joint declarations in the run-up to the renewal of the Agreement, and to refine the financial framework provisions in order to simplify the budgetary procedure and make for efficiency and effectiveness in public expenditure in the Community.
Parliamentary procedure requires that your draftsman confine his work to our committee’s sphere of competence and examine the direct repercussions of the proposals outlined in the Commission document on the common fisheries policy (CFP). It remains clear nonetheless that the important matters relating to the financing of the Union will have their own full and direct impact on the CFP and that the conclusions reached will condition the substance of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure, as well as any eventual modifications to existing budgetary procedures.

Having made these points, and bearing in mind that the opinion drafted by Mr Pérez Royo on the new financial perspective for the period 2000-2006 (COM(98)0164) and analyses the macroeconomic aspects of the Commission report, we can now turn our attention to the implications for the future of the CFP of the Commission report and the proposals contained therein, which focus on two core aspects, namely international agreements and the Structural Funds.

The legal bases: budget heading B2-910, specific operation in favour of small-scale fisheries and small-scale coastal fishing

Before tackling this subject, it is worth recalling that the issues dealt with in the Commission document include the problems surrounding legal bases, namely the requirement under Article 22 of the Financial Regulation that the adoption of a legal basis or basic act must precede the implementation of budget appropriations for any Community action. This requirement affects a budget heading which the Committee on Fisheries played a vital role in creating and maintaining.

The heading in question, covering funding for operations in favour of small-scale coastal fishing, was allocated ECU 2 million in the 1998 budget, but the recent case-law of the Court of Justice has established that it should be scrapped.

The judgment of 12 May 1998, issued in Case C-106/96(1) on the implementation, without basic acts, of appropriations under the 1995 budget heading to combat poverty and social exclusion, has reached the following findings:

1. The Treaty stipulates that all expenditure arising out of a Community action requires not only an entry in the budget, which is a matter for the budgetary authority, but also the prior adoption of an act of secondary legislation authorising that expenditure, which is a matter for the legislative authority. The exceptions listed in the judgment do not include heading B2-910.

2. The required prior adoption of an act of legislation to authorise funding does not cover instances of 'non-significant actions'. Whilst the case-law of the Court refrains from defining these actions, it does stipulate that they cannot be assumed to be non-significant and should be interpreted as such only in specific instances - where their purpose is to prepare future Community action or launch pilot projects, for example.

3. The Court states that limiting the expenditure, duration or degree of coordination of actions under a budget heading - elements which do not in themselves provide a sufficient degree of legality - does not make those actions 'non-significant'.

In studying and debating the preliminary draft budget for 1999, the Committee on Fisheries acknowledged the difficulties caused by the irrefutable absence of a legal basis for the separate funding of these activities and the complexity involved in managing the aforementioned budget heading. However, whilst reaffirming its support for the segment of the fleet covered by this heading, given its importance to some coastal areas of the Union, the committee concluded that it would prove more practical to fund these activities from Structural Fund appropriations in order to sidestep the problem posed by the absence of a legal basis to fund this type of activities.

**International fisheries agreements**

**General aspects**

Negotiations on international fisheries agreements and their budgetary implications have been a major source of disputes between Parliament and the Commission in this parliamentary term. A period in which both transparency and information with regard to the merits of concluding protocols on fisheries, their substance and their financial implications were lacking and Parliament constantly found itself presented with a fait accompli, has since been replaced by close mutual cooperation between Parliament and the Commission, as enshrined in the Joint Statement by Parliament, the Council and the Commission on improving the provision of information to the budget authority on fisheries agreements. The statement, signed on 12 December 1996, comprises three basic aspects:

a) **Adjustment of the budgetary nomenclature**

The budget headings relating to fisheries agreements have been clarified, with a distinction drawn between items referring to international fisheries agreements (heading B7-8000) and items referring to Union contributions to international fisheries organisations (heading B7-8001).

Likewise, a clear contrast has been established between, on the one hand, appropriations for fisheries agreements in force during a given financial year and agreements on which Parliament can give its opinion before the annual budget is approved (entered under heading B7-8000 with the amount required to fulfil the obligations stemming from them) and, on the other, the remainder of the financial obligations relating to fisheries agreements, which are inserted in the reserve (B0-40).

b) **Budgetary allocations**

During the ad hoc procedure provided for in Annex II of the Interinstitutional Agreement, Parliament and the Council agree on the amount to be entered in each of the headings on the basis of Commission proposals.

Should the initial estimates prove insufficient to cover the fisheries agreements, a trialogue will take place to approve additional appropriations or other measures deemed appropriate in order to meet the unforeseen needs. A simplified procedure will govern the exchange of information.

c) **Provision of information by the Commission**
The Commission undertakes to keep the European Parliament regularly informed through its parliamentary committees of the ongoing negotiations on the conclusion of new agreements and of the progress in negotiations to renew existing agreements. Where the Community interest so dictates, information will be supplied through the channels set aside for that purpose or through procedures designed to safeguard its confidentiality.

Likewise, it is foreseen that every quarter the Commission will present detailed information to the budgetary authority concerning the execution of ongoing agreements and the financial forecasts for the remaining part of the year.

The Committee on Fisheries and the Committee on Budgets were both involved in drafting the above agreement on interinstitutional cooperation, which has achieved excellent results and helped resolve almost all existing disputes, thereby enabling cooperation between the Commission and Parliament, and to a lesser extent between the Council and Parliament, to run smoothly.

The impact of interinstitutional cooperation on the budget was such that adherence to the ad hoc procedure and cooperation on the part of the Commission resulted in the inclusion under heading B7-8000 of the draft budget for 1998 of appropriations for agreements in force in 1998 and for those agreements renewed in that year on which Parliament had given its opinion. The remaining budgetary items were inserted in the reserve.

This arrangement averted the need for the increasingly common practice of drafting amendments to the budget headings relating to international agreements.

Marked improvements have been seen in information provision as well. The practice whereby the Commission forwards the new protocol in the original language immediately after it has been signed means that a cursory assessment can frequently be made of the substance of the protocol as regards fishing possibilities, financial compensation and such like. Nonetheless, formal parliamentary procedure cannot commence until Parliament has been formally consulted and the document in question forwarded in all official languages.

Furthermore, it is worth pointing out that it is not unusual for additional documentation, fact sheets and reports on the execution of previous protocols to be enclosed with the Agreement in its original form. This practice, combined with the excellent level of communication between the respective services of DG XIV and Parliament, makes the work of the rapporteurs considerably easier.

The information on the preparation and conduct of ongoing negotiations referred to in paragraph 3 of the Joint Statement has emerged as the main sticking point in interinstitutional relations. The Commission’s appearances before Parliament’s Committee on Fisheries have been too infrequent and the matters raised there have been too vague to shed any light on the strategy and principles guiding the Commission’s action in this field.

**Classification of expenditure**

The final aspect worth mentioning as regards international agreements is the as yet unresolved dispute between the Council and Parliament over the category of expenditure into which appropriations for international fisheries agreements should fall.
At its relatively recent meeting of 30 October 1997, the Council established the criteria determining Community action with regard to fisheries agreements and reaffirmed its opinion that these headings should be classified as compulsory expenditure.

Parliament takes the opposite view, its position being that this expenditure should be classified as non-compulsory, thus giving Parliament a greater say in the level at which expenditure is set and greater overall control over its complementation by exercising its powers as a budgetary authority.

Parliament’s position is embodied in a standard amendment drafted when Parliament debates proposals for a Regulation on international fisheries agreements: ‘Whereas, in accordance with the Interinstitutional Agreement of 29 October 1993 on budgetary discipline, expenditure relating to this Protocol is non-compulsory’.

However, there has traditionally been disagreement over the strategy to be adopted in support of the said position. Whereas for a time the Committee on Budgets advocated blocking the renewal of agreements requiring Parliament’s assent, the Committee on Fisheries took a more pragmatic approach in warning against disputes over competence which might penalise fishermen by preventing them from fishing until the said agreements had been renewed.

Whilst sharing the basic arguments advanced by the Committee on Budgets, the Committee on Fisheries believes that interinstitutional disputes should be settled through dialogue and the established channels represented by the regular trialogue between the Presidents of the institutions. That said, it acknowledges the fact that the Council’s guarantees to the President of Parliament have not yet yielded practical results.

The Structural Funds

The second important issue of relevance to the fisheries sector is the change sought by the Commission to the management of the Structural Funds, which in spite of the declared aim of achieving more effective management by encouraging Member States to use these headings more efficiently, may in fact lead to their being penalised unfairly for reasons unconnected with their real capacity to take action.

The Commission proposes that annual budget commitments should be adjusted in line with the heading provided for in the programming for the relevant year. Commitment appropriations but not paid in the two years following their entry in the budget will be automatically cancelled, that is to say that they will lapse if no corresponding payment application is submitted, and the Structural Fund contribution will automatically fall by the same amount. The existing provisions of the Financial Regulation will govern whether or not the appropriations are reinstated.

We should analyse this particular Commission proposal carefully, since it may become an unjustified means of penalising certain Member States. A prudent approach would be to establish a safeguard to guarantee that the total allocation per Member State provided for under the Structural Funds remains unchanged.

It is worth remembering that the shorter deadlines proposed by the Commission fail to take full account of certain incontrovertible facts. For instance:

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a) the management of the Structural Funds is complex and slow, especially when programming commences, forced as it is to contend with many sudden changes, some of which necessitate reprogramming whose implementation takes a considerable amount of time;

b) the federal or decentralised systems in many Member States require the involvement of various administrative bodies at national, regional and local level, resulting in a time-consuming decision-making process.

Conclusions

1. The criteria which should guide the institutions of the Union in drawing up the new financial perspective are the earmarking of sufficient funds to cover existing Community policies adequately, the costs to be incurred by the planned accession of central and eastern Europe countries and Cyprus as new member states, and the resources to meet potential new demands from the citizens of the Union.

From this point of view, the own resources forecasts calculated on the basis of 1.27% of GNP should be seen as guidelines rather than as limits to be respected at all costs which may restrict or threaten action crucial to the Union’s progress.

2. The factors underpinning the Commission proposal, such as the economic growth rate for the Union set at 2.5% a year, are based on a climate of economic growth which, although likely to continue, may nonetheless change over the relatively long period of seven years. It would therefore be prudent to introduce elements of flexibility or provide for a mid-term review able to adjust rapidly to the prevailing climate, should the real situation prove less healthy than the predictions.

3. The Community fisheries sector is undergoing profound change in order to survive and compete in a globalised economy. The measures pursued at present require sufficient funds to finance the various aspects which together make up the common fisheries policy: the conservation and protection of resources, international agreements, markets, structural operations, social aspects and so forth.

4. A shortage of funds would trigger the demise of a vital sector for coastal areas on which many jobs in fishing itself and in the processing industry depend, and result in even higher public spending in the form of unemployment benefit and social programmes to offset job losses and the collapse of an industrial base.

5. It is as yet premature to specify the financial needs in the sphere of structural policy, the mainstay of Community funding for the fisheries sector; they will depend on the outcome of the ongoing debate on reform of the Structural Funds within the framework of Agenda 2000.

6. The criteria governing the reform of structural operations contained in the proposals for changes to the existing Funds fail to meet the needs of the fisheries sector. The plans for national programming for the MAGPs alongside regional programming for the remaining structural operations will make management more complicated than at present and undermine efficiency in public spending.

7. The fisheries sector needs a single, horizontal legal instrument - a Fund such as the existing FIFG - which should be strengthened along the lines advocated by the Commission in its proposal to create a Rural Development Fund.
8. The Joint Statement of 12 December 1996 is one of the interinstitutional cooperation mechanisms which the Commission wishes to include within the budgetary procedure to be updated during the review of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure.

9. Parliament takes a favourable view of this initiative and is keen to see improvements made to existing procedures and practices. It will be necessary above all to shorten the deadlines governing the official forwarding of documents, be they COM documents in all languages or financial statements, since the delays they cause affect the deadlines governing parliamentary procedure by deferring the formal commencement of the consultation procedure, thereby leaving very little time between the formal consultation of Parliament and the date set for the first payment of financial compensation under the fisheries agreements.

10. Parliament welcomes the progress in interinstitutional cooperation during this parliamentary term as regards negotiations on international fisheries agreements, above all with the Commission. Nonetheless, it believes that much remains to be done to ensure that Parliament is fully involved in shaping and implementing action in this area of the CFP.

11. Parliament holds to the view that the appropriations for these purposes should be non-compulsory.

12. Whilst expressing its agreement with the review procedure with regard to Community regional policy and the new Structural Fund regulations, the Committee on Fisheries takes the view that the corresponding amendments proposed for inclusion when the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure is updated merit considered and careful analysis, so as to ensure that the reforms introduced do not penalise any Member State unfairly.
JOINT STATEMENT ON IMPROVING THE PROVISION OF INFORMATION TO THE BUDGET AUTHORITY ON FISHERIES AGREEMENTS(1)

The institutions agree on the following points and undertake to abide by them in the present and future budgetary procedures:

Nomenclature

1. Two budget headings for fisheries agreements are hereby created:

   a) *International fisheries agreements (B7-8000)*: will cover all amounts referring to the agreements and their protocols which are in force at the beginning of the financial year in question. Amounts referring to all new (or renewable) agreements will be attached to B7-8000, but inserted in the reserve, B0-40.

   b) *Contributions to international organisations (B7-8001)*.

2. During the ad hoc conciliation procedure provided for in Annex II.B of the Interinstitutional Agreement, the European Parliament and the Council will seek to agree on the amount to be entered in the headings and in the reserve (B0-40) on the basis of the proposals made by the Commission.

3. The European Commission confirms the undertaking given in the code of conduct to keep the European Parliament regularly informed through its parliamentary committees regarding the preparation and conduct of the negotiations, including the budgetary implications.

   As part of the legislative process relating to fisheries agreements, the three institutions undertake to make every effort to ensure that all procedures are carried out as soon as possible.

   If appropriations relating to fisheries agreements (including the reserve) prove insufficient, the Commission shall provide the budgetary authority with the necessary information for an exchange of views in the form of a trialogue, possibly simplified, on the causes of the situation, and on the measures which might be adopted under established procedures. Where necessary, the Commission will propose appropriate measures.

Information

4. Every quarter the Commission will present detailed information to the budgetary authority concerning the execution of ongoing agreements and the financial forecasts for the remaining part of the year.