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REPORT

from :	The Presidency
to :	European Council (Brussels, 17-18 June 2004)
Subject :	Financial Framework for 2007-2013 : Analytical Report

On 10 February 2004 the Commission submitted its Communication on the policy challenges and budgetary means of the Union over the period 2007-2013.

On 23 February 2004 the President of the Commission presented the Communication to the General Affairs and External Relations Council. The Council agreed with the Presidency's suggestion that it should be examined by the Committee of Permanent Representatives.

The 2004 Spring European Council subsequently invited the Council to continue the study being conducted by Coreper with a view to the preparation of an analytical report in advance of the European Council in June 2004.

Coreper held a number of special sessions and also created an ad hoc Group to assist in the examination of specific aspects.

At the conclusion of this phase of work, the Presidency accordingly submits the following report to the European Council.

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Introduction

The purpose of the analytical exercise has been twofold: to elucidate the assumptions, projections and philosophy underlying the Commission's Communication of February 2004 and to provide feedback in order to assist the Commission in its preparation of legislative proposals.

The Multi-Annual Programme approved by the European Council in December 2003 envisages the new financial perspectives being approved by the European Council in June 2005. It is clear that an analytical exercise at this early stage in the process cannot prejudge the political decisions or the specific positions of delegations as the debate evolves over the coming year. As well as this general consideration on timing, there are specific constraints within which this Report has had to be formulated:

- Much of the detailed information necessary for Council to assess the proposals in depth will only become available at a later stage, in particular after presentation by the Commission of its legislative proposals.

- More fundamentally, the debate on the future financial perspectives has been characterised from the outset by differences among Member States as to the appropriate level of EU expenditure and the methodology to be followed. The Commission, with support from some Member States, starts from an assessment of what it judges to be the needs of the enlarged Union over the coming period, together with political and policy commitments already assumed by the Council. On this basis, the Commission estimates that required expenditure over the period will average 1,14% of EU GNI per annum for payments and 1,26% for commitments. At the other end of the spectrum, Member States advocating a 1% expenditure ceiling propose a top-down approach according to which an overall budgetary ceiling is agreed first and policy objectives are then prioritised within that ceiling; in their view requirements of budgetary discipline and domestic fiscal situations necessitate such an approach. Other Member States take intermediate positions between these two approaches. The differing approaches are elaborated in relevant sections of the Report.

The Presidency is keenly conscious of the constraints within which this exercise has been conducted. It believes nevertheless that thorough analysis will help promote rational debate and informed decision-making as the process evolves. While much detail is still awaited, the significant additional information provided by the Commission in the course of this exercise will assist Member States in assessing the Communication proposals. Equally, although definitive overall guidance cannot be provided at this stage, Member State viewpoints on a number of specific issues as set out in this report should assist the Commission in its further development of proposals.

Format of the Report

Each individual section of the report follows the same format: there is a summary of the Commission's proposals as put forward in its February Communication; the main issues are identified; subsequent elucidation of the proposals in the course of the analytical exercise is set out; and delegations' positions are summarised. In the Conclusions section, the Presidency sets out a number of comments based on these initial discussions.

I. GENERAL APPROACH ON EXPENDITURE

COMMISSION COMMUNICATION

1. In its Communication the Commission presents a financial framework for the seven-year period 2007-2013. It suggests that subsequent financial frameworks could be of a five-year duration. The Commission emphasises that its proposals on the future financial framework are presented in the context of the Union's existing and foreseeable commitments. In particular, the proposals aim to cover the needs of a Union of 27 Member States, consistent with the conclusions of the European Council of December 2003 which set the common objective of the EU to welcome Bulgaria and Romania in January 2007 as members of the Union, if they are ready.

2. The proposals further take account of the fact that commitments already exist in a number of areas. These may be quantified, as in the case of the Common Agricultural Policy (deriving from the agreement at the October 2002 European Council on the ceilings for market expenditure and direct payments for EU-25) or non-quantified, arising out of existing policy commitments, e.g. in the Justice and Home Affairs area or as regards the development of research and technological innovation.

3. The Commission considers that the Union would require **commitment appropriations averaging 1,26%** of EU-27 GNI over this 7-year period. The **payment appropriations** arising from these commitments (and from the commitments outstanding from the period before 2007) **are projected to average 1,14% of EU-27 GNI** over the period. This level of payment appropriations can be financed within the ceiling of 1,24% of GNI laid down in the current Own Resources Decision, on the assumption that the EU-27 GNI annual growth will average 2,3% during this period[1]. An expenditure ceiling of 1%, however, would require the paring back of EU commitments in a range of areas or else cuts across the board.

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[1] For the assumptions underlying this estimate of growth and the sensitivity of the ceilings to different estimates, see Annex I to this Report.

<u>MAIN ISSUES</u>

4. - whether, as stated by the Commission, an expenditure ceiling of 1,14% is necessary to enable the Union meet its obligations over the period or whether, and to what extent, obligations can be met within a lower (1% or other) ceiling;

   - whether a " top-down" or "bottom-up" approach should be applied (*i.e.* whether Council should proceed by first fixing an expenditure ceiling and then deciding on the allocation of funding within that ceiling or, alternatively, whether Council should first identify policy needs and allocate funding accordingly);

   - whether there should be a relationship – and, if so, what – between growth rates in the EU budget and in national budgets.

<u>ELUCIDATION</u>

5. The Commission provided an analysis setting out the sensitivity of various expenditure ceilings according to different levels of economic growth (see **Annex I**).

6. The Commission noted the asymmetric effect of enlargement, with the level of demands on the Union's budget greatly exceeding the limited increase in the Union's GDP. The Union's budget therefore cannot be reasonably compared with, or linked to, the level of growth in national budgets. Moreover, from a historical perspective, national budgets as a percentage of GNI remained relatively stable in the period 1996 to 2003 while in the same period the Union's budget on the same basis had declined. The Commission emphasised that its proposals take account also of the proposed budgetisation of the EDF and the European Union Solidarity Fund.

<u>POSITIONS OF DELEGATIONS</u>

7. For <u>many delegations</u> the ceilings put forward by the Commission generally reflect financing requirements commensurate with the Union's ambitions and needs during this period, and as such constitute an appropriate starting point for the discussions.

8. A number of delegations, however, do not regard the Commission communication as an appropriate basis for legislative proposals and do not accept the ceiling put forward by the Commission. They believe that an expenditure level not exceeding 1% of GNI, including agriculture spending within the ceiling set by the European Council, would be more in line with the general objectives of the Union as far as budgetary rigour is concerned as well as with Member States' efforts domestically. Such an approach, in their view, would still allow for annual increases in the EU budget permitting a sufficient margin for policy implementation in the enlarged Union, provided that resources were concentrated through rigorous prioritisation on actions where value added could clearly be demonstrated.

9. Other delegations favour an open approach, laying emphasis at this stage on examining the degree to which proposed spending is justified when measured against the shared appreciation of the Union's ambitions rather than on arbitrarily establishing the overall size of the financial framework. Such an approach may result in a figure somewhere between that envisaged by the Commission and the 1% sought by a number of delegations.

10. Some delegations encouraged the Commission to produce a series of alternative scenarios with different ceilings and a demonstration of how prioritisation might operate within these different ceilings.

11. Delegations were divided as to how Council might proceed in the event that cut-backs were required. Some delegations, as indicated, believed policies should be prioritised on the basis of considerations of added value. Others said that if cut-backs were needed they should be applied across the board. Several delegations noted that the CAP and Cohesion enjoy Treaty status. A number of delegations emphasised the priority to be attached to the successful integration of the new Member States.

12. Without prejudice to their respective positions on expenditure levels, no delegation called into question the 1,24% of GNI ceiling for Own Resources laid down in the current Own Resources Decision. Some delegations however pointed to the risk of the 1,24% ceiling being breached if the envisaged level of expenditure was maintained but average annual growth was less than the 2,3% estimated by the Commission.

13. There was agreement that while the proposed 7-year duration for the new Financial Framework can be retained as the basis for discussion, this remains an item for further consideration at a later stage.

II. STRUCTURE: EXPENDITURE HEADINGS

(and Instruments and Governance)

COMMUNICATION

14. The Commission proposes to modify substantially the structure of the current financial perspectives by regrouping activities under five Headings, with Heading 1 sub-divided into two Sub-Headings and CAP payments identified separately under Heading 2. This reflects in particular the proposed role of a number of EU policies as instruments for achieving the goals of the Lisbon Strategy. It is also intended to reflect other political priorities for the 2007-2013 period, namely the conservation and management of natural resources, European citizenship and the EU as a global partner. The new structure provides for greater flexibility and represents a step towards consolidating and rationalising the organisation of spending by policy.

MAIN ISSUES

15.
- the advantages and disadvantages of the proposed structure;
- whether it contributes to greater coherence and transparency;
- the political message it communicates;
- how it will impact on the content of policies.

ELUCIDATION

16. The table at **Annex II** illustrates under which Heading of the new financial framework each of the policy areas of the 2004 (activity-based) budget would fall. It also shows how proposed financial framework Headings correspond to those of the current financial perspectives.

17. The Commission explained that it has proceeded on the basis of identifying the policy challenges facing the Union and adapting budgetary structure to the priorities. It considers that the new structure will contribute to the achievement of the objectives outlined and each Heading will have its own internal logic. It believes that the structure is more coherent than before and it seeks to balance stability with flexibility; to add further sub-Headings would increase rigidity. It also maintains that administrative expenditure will not increase disproportionately through being integrated with operational expenditure.

POSITIONS OF DELEGATIONS

18. Some delegations find the structure proposed by the Commission an interesting starting point, sharing the Commission's view that such an architecture sends a strong message of political commitment to the salient political objectives of the Union up to 2013. A number of delegations however emphasise that such an updating of policy focus must not become a vehicle for modifying the **content of policies** as originally conceived; in particular, while cohesion could be further geared towards reinforcing the drive for achieving the **Lisbon objectives**, it remains a policy in its own right intended to bring about the specific objectives laid down for it in the Treaty.

19. Other delegations, while agreeing that the **political priorities** identified by the Commission for the 2007-2013 period are the right ones, **remain to be convinced of the merits of the proposed modification**. They question whether articulating the financial framework according to political priorities contributes significantly towards delivering on those political priorities, while pointing on the other hand to a number of potential drawbacks. In particular, when political priorities require regulatory rather than budgetary initiatives, identifying them as separate financial perspectives categories can make them appear as low financial priorities. In addition, reducing the number of Headings as proposed increases their breadth in a manner that may not best serve the interests of proper implementation and evaluation by the budgetary authority. Also, departing radically from the structure of the current financial perspectives has the disadvantage that it becomes difficult to trace the evolution of spending on major Union policies. A number of delegations accordingly see advantage in a further breakdown of expenditure, e.g. by increasing the number of Headings and/or sub-Headings and in the use of ring-fencing. Comments on the individual Headings are reproduced in the relevant sections of this report.

20. As far as the specific case of **administrative expenditure** is concerned, delegations underline the need for proper oversight and control of Commission administrative expenditure; many delegations consider that, whether or not such expenditure is ascribed to the individual Headings, it should be indicated separately as an overall amount within Heading 5.

Instruments and governance

21. The Commission states that "the success of policies relies on the efficiency of delivery instruments and, more broadly on the appropriate system of economic governance". To this end, it proposes a roadmap that would bring together goals, objectives, instruments and indicators, as well as a stringent timetable to assess whether agreed benchmarks have been reached. In addition it proposes a simplification of the instruments of expenditure management. The Commission has also identified an overall approach to administrative governance that is intended to lead to streamlining and the selection of the most suitable delivery mechanisms. This approach is summarised in Annex 1 of the Communication.

22. The Commission indicates that it will be presenting concrete proposals in this area in due course. Discussion of these will help to elucidate a number of questions such as how the proposed ***roadmap*** will improve the delivery of policy objectives and what deficiencies in ***governance*** have been observed in the past. The Commission will indicate how the proposed more ***decentralised*** approach might provide a remedy to these deficiencies, and the difficulties that might be encountered in the practical implementation of the new approach.

III. FLEXIBILITY

COMMUNICATION

23. In order to address future challenges and to promote the right balance between budgetary discipline and efficient resource allocation in a transparent and credible way, the Commission, while maintaining the key features of financial discipline (annual expenditure ceiling by Heading for commitment appropriations, total ceiling for payment appropriations, margin below own resources ceiling, etc.) proposes:

- to reduce the number of **Headings**;
- as regards the possible use of the **revision procedure**, to hold an annual review of needs in the form of a trialogue between the European Parliament, Council and Commission ahead of the presentation of each preliminary draft budget;
- to set up a new '**reallocation flexibility**' to replace the existing flexibility instrument. The new instrument would allow for the re-allocation of appropriations between Headings by using the margins which would have to be kept under all or at least some categories of expenditure for each year of the financial perspectives. It should apply to all Headings and there should be a limit (to be determined) to the amount by which the ceiling for the beneficiary Heading could be exceeded.

24. The Commission furthermore suggests that a **Growth Adjustment Fund** be established within sub-Heading 1a) 'Competitiveness'. Intended to act as a topping-up facility for the instruments judged most effective in fulfilling priorities under the Heading, it could be used for both sub-Headings 1a) and 1b). The Fund would be endowed with up to €1 bn per year under sub-Heading 1a) and would be augmented by up to a further €1 bn per year with unused funds arising from the application of the n+2 rule for expenditure under the two cohesion instruments (ERDF and ESF).

MAIN ISSUES

25. - whether and in what respect existing arrangements have proved unsatisfactory and whether the proposed arrangements will promote budgetary best practice;

    - the operational arrangements for the proposed flexibility mechanism and the Growth Adjustment Fund, including application of funds decommitted under the n+2 rule.

ELUCIDATION

26. The Commission's starting point is that flexibility is not in contradiction with budgetary discipline but is instrumental in ensuring the efficient allocation of resources, and that both principles should be applied. It notes however that various factors (increase in the number of Headings and sub-Headings, ring-fencing, etc.), together with a reluctance to use the revision procedure, have led over the years to an increased rigidity in the system. One result of this is that some €1.5 bn is currently frozen within the system. As regards the Growth Adjustment Fund, this will not have a separate legal base; its level of funding will be decided on in the context of the annual budgetary procedure with the Budgetary Authority.

POSITIONS OF DELEGATIONS

27. The majority of delegations express serious doubts as to the Commission's proposals to alter the flexibility arrangements contained in the current financial perspectives. In general, they are of the opinion that:

- overall, the current flexibility arrangements have worked satisfactorily, having secured additional financing for any exceptional unforeseen needs that have emerged so far;

- the case for changing the current system has not yet been made and the proposals put forward were in some ways difficult to reconcile with the need for stability and restraint in expenditure; they also risked making the Union's long-term political priorities less clear. Particular criticism was levelled at the idea of an annual trialogue for activating the revision procedures;

- flexibility could be enhanced within the confines of the present system by such means as ensuring that adequate margins are available under the ceilings within each Heading. It was pointed out that a reduction in the number of categories (Headings and sub-Headings), if decided, would of itself enhance the degree of flexibility inherent in the system;

- as far as the proposed **Growth Adjustment Fund** is concerned, further study is required, in particular on how it would operate in practice (including as between sub-Headings 1a) and 1b)). Some delegations are opposed to the proposal for a Fund as such; others are strongly against the possibility of feeding it with unused Heading 1b) appropriations arising from the application of the N+2 rule.

28. Without prejudice to their general positions, several delegations feel that further consideration of the Commission's suggestions would require a number of issues to be clarified, in particular relating to the proposed re-allocation facility (e.g. areas where it could be used and the limits within which it would operate).

IV. COMPETITIVENESS FOR GROWTH AND EMPLOYMENT
(Heading 1a)

COMMUNICATION

29. To achieve the aim of transforming the EU into a dynamic knowledge-based economy geared to growth, the Commission sets out five objectives under which contributing policies and/or targets are grouped. These are: promoting competitiveness in a fully-integrated single market; research and technological development; connecting Europe through EU networks; education and training, and the social policy agenda.

MAIN ISSUES

30. - given that the Lisbon Strategy is largely driven at Member State level, what is the rationale for funding the measures proposed under this Heading; have the principles of subsidiarity and proportionality been fully applied;

    - the financial share-out between the objectives; how expenditure will evolve over the course of the financing period.

ELUCIDATION

31. The Commission points out that the actions set out under this sub-Heading bring together the main elements of the **Lisbon Strategy** (except for environment policy which is mostly covered under Heading 2) and thereby give sharper focus to the strategy. While the Lisbon Strategy is a dynamic process primarily dealing with structural reforms at national level and regulatory work at EU level, some of its aspects nevertheless need to be underpinned by the EU budget. The actions envisaged are consistent with the commitments entered into through the relevant European Council conclusions and Council decisions.

32. The Commission envisages that spending on this Objective could more than double over the financial perspectives period (and triple when compared to spending in 2006) to reach €25 billion in 2013. Over half the funds under this sub-Heading would be devoted over the period to R&D, almost 20% to TENs, 10% to education and some 15% to competitiveness, social policy and administrative expenditure. In addition €1 billion per year will be allocated to the Growth Adjustment Fund.

33. More specifically, the Commission considers that:

- **research and technological development** funding, the top priority, is intended to bridge the remaining gap towards the 1% target of European (EU plus Member States') public spending in this area, to provide value added to national spending and to act as a catalyst for private investment;

- as far as the **financing of TENs** is concerned, the EU budget should provide leverage for the private investment necessary to develop projects, especially in the telecommunications and energy sectors. EU participation should not exceed 20%. (It confirmed that expenditure on the Jaslovske Bohunice and Ignalina nuclear power stations would be entered under this sub-Heading rather than under Heading 3 since this is considered to be an aspect of the EU's energy policy);

- supporting individual mobility and promoting partnerships/networks between schools, universities and training providers in different countries cannot be efficiently organised or funded at national level; experience has demonstrated EU added value in the **education and training** field.

POSITIONS OF DELEGATIONS

34. Delegations agree that achieving the objectives of the Lisbon Strategy is a top priority for the Union. Many recall, however, that success in this respect is mostly dependent on regulatory action at Union and structural reform at Member States level rather than on expenditure under the EU budget. Given the steep increase in EU budget resources envisaged (a twofold increase over the period compared to an increase in the total ceiling for all Headings of slightly less than a third), several delegations feel that this Heading lends itself particularly well to a stringent, in-depth analysis of the **added value** of action at EU level. A similar in-depth analysis of the potential leverage effect on private investment and the multiplier effect should also be carried out. Finally, attention needs to be paid to the role that the principles of subsidiarity and proportionality should play in this area.

35. Independently of the position taken on the total expenditure envisaged for this sub-Heading,

- some delegations agree that the share of appropriations envisaged for research is broadly correct;
- others recall that R&D expenditure tends to be disproportionately focussed in the wealthier Member States and actions to promote the aims of the Social Policy Agenda must be adequately financed;
- some question how the leverage effect will improve the distribution of benefits between the Member States;
- the view was also expressed that the share of expenditure envisaged under this Subheading for TENs (20%) should be increased.

V. COHESION

(Heading 1b)

COMMUNICATION

36. The Cohesion policy envisaged by the Commission puts specific emphasis – in line with the conclusions of the Lisbon and Gothenburg European Councils – on competitiveness, sustainable development and employment through investment in people and in physical capital. The achievement of these goals should be organised under a simplified and more transparent framework. The new programmes in the 2007-2013 period could be established under the three Community objectives of Convergence, Regional Competitiveness and Employment, and Territorial Cooperation.

37. The **overall level of expenditure** over the period proposed by the Commission[1] is 0,41% of Union GNI (€ 336,197 million) or 0,46% GNI (€ 373,973 million) if the rural and fisheries instruments (under Heading 2) are taken into account.

MAIN ISSUES

38.
- whether the proposals reflect the correct policy focus and priorities for Cohesion policy;
- whether the proposed distribution of funding between objectives and between Member States is correct;
- the precise arrangements proposed for the "phasing-out" and "phasing-in" regions, micro-zoning and the territorial cooperation objective.

1 A breakdown of Heading 1b) can be found in Annex III to this Report.

ELUCIDATION

39. **Special arrangements** are envisaged for two specific categories of regions[1]:

- the so-called **"phasing-out" regions**: those are regions (18 in number with a total population of 19,1 million people) which will not be eligible for the new Convergence objective in 2007-2013 - not because of natural growth, but for purely statistical reasons (i.e. the decline in average EU GDP per capita consequent upon enlargement). The Commission feels that such regions deserve a special and more generous "phasing-out" arrangement (under the Convergence objective) than regions ineligible because of natural growth. The support envisaged will be higher than that decided at Berlin for the regions currently being phased out from Objective 1. The overall average aid intensity would be around 66% of the amount these regions would have received as Convergence regions;

- the so-called **"phasing-in" regions**: these are regions (12, with 17 million people) which will not be eligible for the new Convergence objective because of the growth of their economies. The Commission considers that these regions should be accorded a more rigorous treatment than that agreed at Berlin in 1999 for regions in the same situation at that time and suggests that they should be assimilated into the 'Regional competitiveness and employment' objective. The overall average aid intensity would be around 35% of the amount they would have received as Convergence regions.

40. The Commission considers that the **zoning system** under the current Objective 2 has sometimes created unnecessary rigidities and has often prevented regions from developing overall development strategies. Accordingly, it proposes abandoning micro-zoning at Community level and replacing it with a system allowing the appropriate balance between the geographical and other forms of concentration to be determined in drawing-up regional competitiveness programmes in partnership with the Commission.

[1] The main features of the proposed arrangements can be found in Annex IV to this Report.

41. Finally, the Commission proposes giving new impetus to **cross-border and transnational cooperation** by creating a new, dedicated objective. This will have two strands: the first will be centred on supporting cross-border cooperation between local authorities and partners along the internal land and short-sea borders of the Union, corresponding to INTERREG III A. The second, favouring cooperation between regions and Member States in wider transnational zones, will correspond to INTERREG III B. The Commission will ensure a correct balance between the two strands of this Objective and all maritime borders would be eligible. In this context, the Commission will propose a new Council Regulation to facilitate cross-border cooperation between regional and local authorities.

42. It should also be noted that the Commission is suggesting the creation of a New Neighbourhood Instrument (NNI)[1], which will deal with cross-border cooperation along the external borders of the EU. The NNI will support actions on both sides of the EU border, following the INTERREG method, with appropriations for the internal and external components being included in Headings 1b) and 4, respectively.

43. To fully assess this part of the Commission's Communication, the conclusions of the Third Report on economic and social cohesion[2] should also be taken into account as the Commission's added value analysis of this policy.

44. **Capping** of financial transfers at 4% of Member States' GDP will continue, with amounts transferred to the rural development and fishery instruments still included in the calculation.

[1] The Commission adopted a communication on the European Neighbourhood policy on 12 May.
[2] COM(2004) 107 final - doc. 6563/04

Positions of delegations

45. As regards **policy focus and priorities**, there is broad agreement that the three objectives presented by the Commission are the appropriate means for achieving the objectives of the proposed Cohesion policy. A number of delegations recalled in this context that while cohesion policy should contribute to the overall objectives of the Lisbon Strategy it remained a policy in itself intended to bring about specific objectives as defined in the Treaty.

46. Delegations recognise that the Union should aim at reducing disparities, although some express doubts on the extent to which the areas of the EU-15 Member States should benefit. In this connection some recall that all Member States benefit from cohesion policy, whether through direct funding or through the expenditure that is fed back to the richer regions through contracts and an increased demand for their goods and services. Some delegations are of the view that the current approach is no longer sustainable and that further debate will be needed as to whether cohesion policy should be focused more on imbalances between the Member States rather than between the regions. Others emphasised that the current approach is fully consistent with Article 158 of the Treaty. A number of delegations made specific points as to the coverage of the Convergence Objective with arguments advanced for the inclusion of specific eligibility criteria.

47. Opinion on the **overall level of spending** envisaged by the Commission to meet the challenges of the new cohesion policy (0,41% of EU GNI) is divided. There is a spectrum of views: some delegations consider this level to be the correct one; others see it as a bare minimum in view of the needs arising from enlargement. Others find it too high, and inconsistent with their position on the proposed level of total EU expenditure.

48. Several delegations feel that future consideration of the Commission's suggestions in respect of sub-Heading 1b) would be assisted by detailed information on **financial breakdown by Objective and by Member State** and the assumptions for determining the financial allocation between the new and current Member States. An indication of the amount foreseen for the Cohesion Fund would also be helpful. They therefore feel that it is premature at this stage to assess whether the proposed allocations of 78,5%, 17,2% and 4,2% reflect the right balance between the proposed three objectives. However, in preliminary reactions:

- several delegations underlined the need to review the "Berlin methodology" used to calculate the commitment appropriations in the Convergence and Competitiveness and employment regions, as well in the "phasing-out" and "phasing-in" regions. Others however, considered the methodology acceptable;

- some delegations are of the opinion that the allocation for the Convergence objective should be higher and that for the Regional competitiveness objective lower; many of the new Member States call for a more flexible approach concerning the 4% capping rule, arguing that the level of financial support should be proportional to the level of development of the Member States. They also maintained that this rule should not cover expenditure allocated under rural development or external relations (NNI). They furthermore voice their concern about the current aid intensity for their eligible regions in comparison with the EU 15 beneficiary regions and call for the future arrangements to ensure equal treatment for all in this regard. Some of them also called for the " n+2" rule to be loosened (e.g. to "n+3"). Several other Member States emphasise the importance of maintaining the current rules;

- a few delegations point to the need for a satisfactory solution for the outermost regions and areas with a very low population density in order to apply fully the relevant articles and protocols of the Treaty.

49. Most delegations think that the overall figures and annual breakdowns for both the **"phasing-out"** and the **"phasing-in" arrangements** would be helpful for a better understanding of the proposed arrangements. However, as of now,

- a number of new Member States express concern that their regions might receive a lower level of financial support than the regions of the EU-15; the Commission however confirms that it will put forward a fair and non-discriminatory solution for all "phasing-out" and "phasing-in" regions. Some delegations are in favour of a shorter and more rigorous "phasing-out" while others feel that the "phasing-out" is already rigorous. A few suggest that Member States should finance their own "phasing-out" and "phasing-in" regions;

- some delegations on the other hand consider that the support for the "phasing-out" regions is insufficient and ask for the 75% of GDP threshold for Convergence region eligibility to be reconsidered. Others underline the fact that these new "phasing-in" arrangements are more restrictive and less generous than the "phasing-out" arrangements applicable under the current financial perspectives;

- the issue of extending the proposed statistical effect arrangement to the Cohesion Fund was also raised.

50. Most delegations welcomed the Commission proposal to leave **micro-zoning** to Member States in future. Several question how the partnership between Member States, regions and the Commission to establish the appropriate zoning would work, and ask for clarification on how the envisaged balance between geographical and thematic concentration would be achieved. Further clarification on the impact of State aid zoning was also called for.

51. The proposed **territorial cooperation objective** is widely welcomed by Member States. Nevertheless, several delegations request more information on the proposed new legal instrument for cross-border cooperation and others request more information on how the NNI and the "Territorial Cooperation" objective would interact.

52. Some delegations consider that the **New Neighbourhood Instrument**, as a single instrument, should be financed solely under Heading 4 (EU as a global partner) and not under both Headings 1b) and 4.

VI. SUSTAINABLE MANAGEMENT OF NATURAL RESOURCES (Heading 2)

COMMUNICATION

53. The Commission's proposals take full account of the October 2002 European Council agreement on reform of the CAP. Rural development measures are concentrated in a single instrument based on the three objectives of increasing the competitiveness of the agricultural sector through support for restructuring; enhancing the environment through support for land management; and enhancing the quality of life in rural areas through promoting diversification of economic activities. The Common Fisheries Policy and a number of activities in the area of environment policy are also included under this Heading.

MAIN ISSUES

54.
- whether the proposed structure of the Heading is appropriate, or whether there should be separate sub-Headings for specific areas;
- the details of the financing of policies proposed under the Heading.

ELUCIDATION

55. The Commission points out that

- as regards **agriculture**,
  - market related expenditure and direct payments account for three quarters of this Heading over the 2007-2013 period. The annual figures correspond to the ceilings agreed at the October 2002 European Council (after the application of a 2% deflator to express them in 2004 prices). They include an estimate for Bulgaria and Romania, in line with the Commission's Communication on the financial package for the Union's enlargement to these two countries and the draft common positions subsequently presented to Council. They furthermore include interventions in the fisheries sector and in the veterinary and phytosanitary fields,

  - these figures should be defined in the new Interinstitutional Agreement as a ceiling rather than a sub-Heading. Should actual expenditure prove to be lower than the ceiling, unused appropriations could be devoted to other activities under Heading 2 without revising the financial framework;

- **rural development** takes up around a fifth of the funds. The new instrument proposed by the Commission would cover interventions under Heading 1b) of the current financial perspectives plus expenditure for Bulgaria and Romania, in addition to a transfer of the interventions of the EAGFF-Guidance for objective 1 regions;

- **fisheries** would account for some 2% of expenditure under the Heading. The new instrument would encompass the interventions of the FIFG in all eligible regions, international fisheries agreements and measures for governance and conservation;

- while the bulk of funding for the **environment** would continue to come from cohesion, agriculture and rural development, research and development and external assistance programmes, a new financial instrument for the environment would be funded under Heading 2. It would group together all current budget lines (LIFE, urban environment, Forest Focus, civil protection *etc.*) in one instrument and would account for under 1% of Heading 2 appropriations;

- finally, **administrative costs** and the costs of other actions will account for less than 2%. This would include a margin for rural development and environment action.

56. The Commission also confirmed that the amounts transferred from the structural funds to this Heading (i.e. EAGFF-Guidance and FIFG) would continue to be taken into account for the calculation of the 4% of GDP cap for transfers under the structural funds.

POSITIONS OF DELEGATIONS

57. Several delegations call for giving agricultural expenditure (market related expenditure and direct payments) separate sub-Heading status. Some delegations voice similar requests in respect of rural development, fisheries and environmental expenditure. As regards the latter, several delegations also express a preference for the regrouping of all environmental expenditure under a single Heading or sub-Heading.

58. The Commission was requested to provide more detailed information on:

- as regards agriculture
  - the respective shares of agricultural expenditure envisaged for the EU-25 and Bulgaria and Romania,
  - the allocation of agricultural expenditure as between market related measures and direct payments,
  - the amounts of expenditure to be transferred from market support to rural development as a result of modulation;

- as regards <u>environment</u>
  - the actions to be financed under the new environmental instrument,
  - environmental policy expenditure across all Headings.

VII. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE (Heading 3)

COMMUNICATION

59. The Commission envisages the EU complementing the efforts of Member States to provide all European citizens freedom, justice and security; access to basic goods, and the development of a European culture which fosters a shared European identity while preserving the wealth of cultural diversity. Heading 3 is intended to give political and financial visibility to action to this end.

MAIN ISSUES

60. - the rationale for combining such seemingly disparate areas under the same Heading;
    - the financing envisaged for specific actions under this Heading.

ELUCIDATION

61. According to the Commission, the priorities under this Heading flow from the interests and expectations of our citizens. Policies are presented on the basis of an over-arching theme, that the Union exists to support our citizens, to protect them from risks and to enable them unlock their potential. Assembling the policies in question under the Heading will give political and financial visibility to the Union's determination to address matters of immediate interest to Europeans as individuals and citizens.

62. Although this is the smallest Heading in terms of amount, its overall size is set to more than double over the period. By the end of the period almost two thirds of total expenditure under the Heading will be devoted to **freedom, security and justice:** protecting fundamental rights, promoting solidarity in relation to free movement of persons, a common asylum policy and integrated border management, and strengthening the prevention of, and fight against, crime. Expenditure on the freedom, security and justice area will almost triple between 2007 and 2013.The remaining appropriations will be channelled to ensuring that Europeans have equal **access to public goods** (important actions in this regard concern public health and consumer protection initiatives), and actions for fostering **European culture and citizenship**.

63. More **clarity** on the measures envisaged under the Freedom, Security and Justice section of this Heading (as well as on their financial implications) would result from the forthcoming Communications evaluating the achievements of the Tampere programme and dealing specifically with the financial perspectives from the JHA angle; these would serve as a basis for wider-ranging consultations leading to the presentation of the first financial instruments at the beginning of next year.

64. Action against **terrorism,** pursuant to the decisions of the 2004 Spring European Council would fall under the "security" part of the freedom, justice and security section.

POSITIONS OF DELEGATIONS

65. There is general agreement that **justice, freedom and security** issues are of very high importance and that appropriate funding for this purpose must be secured, possibly by establishing a specific sub-Heading. In this connection several delegations request further information on the financing for specific actions falling in this area, in particular those concerning the fight against terrorism, the management of external borders and the European Refugee Fund. Some delegations stress the need for concentration of resources on the protection of external borders, with the majority of the new Member States' emphasising the need for continuation and extension of the Schengen Facility.

66. Many delegations question the **rationale** for bringing together the proposed actions under this Heading, remaining unconvinced that "citizenship" constitutes a sufficiently coherent policy framework. Some see no reason why the actions envisaged under **access to public goods and building up citizenship** should be grouped together under this Heading; they could more appropriately be placed under different Headings according to their policy implications.

67. Delegations reserve their position on the illustrative **quantitative targets** for actions falling under the Heading. They consider that these should not be defined in the context of the financial framework but rather in the appropriate legislation; it was also emphasised that the principle of equal access to EU initiatives for all citizens should be respected.

68. Several delegations are of the opinion that the **Solidarity Fund** should be included under this Heading rather than under Cohesion (1b), on the assumption that large scale disaster relief will also be covered under this Heading.

VIII. THE EU AS A GLOBAL PARTNER
(Heading 4)

COMMUNICATION

69. The Commission notes that there is a gap between the Union's economic weight and its political clout, and that enlargement will entrust the Union with even greater responsibilities in the area of external relations. The Commission stresses the need to improve the coherence of external action instruments (the Common Foreign Security Policy, common trade policy and cooperation with third countries). This will enable the Union to pursue better its foreign policy objectives through its responsibilities as regional leader, major development cooperation agent and global player.

70. The Commission suggests increasing the financial envelope for all external actions from € 11,232 million in 2006 to € 15,740 million in 2013 (including the EDF). In absolute terms this increase corresponds to a relatively stable share of the overall budget over the period, starting from 9,3% of the Community budget in 2006 and rising to 9,9% by 2013.

MAIN ISSUES

71. - the application of the proposed increase in funding under the Heading to specific policies;
- the importance of flexibility in this area;
- the ratio of commitments to payments under the Heading;
- the implications of the proposed simplification of instruments;
- the proposed budgetisation of the European Development Fund.

ELUCIDATION

72. Expenditure on the three main **policy objectives** would be allocated as follows:

– about half of the funds would go to the **partnership for sustainable development**, relating mainly to poverty reduction and other Millennium Development Goals, in the ACP region, Asia, Central Asia and Latin America;

– around one third would be devoted to the **Neighbourhood policy**, comprising pre-accession assistance, the Balkans, the Mediterranean, Russia and the other neighbouring NIS countries;

– the remaining part would relate to the **EU as a global player**, covering CFSP, activities of a more thematic nature (e.g. humanitarian aid, peace-keeping operations, institution-building, human rights, de-mining, rapid reaction mechanism), and the external dimension of internal policies; it would also include the loan guarantee and emergency aid reserves, which would be stabilised at their 2006 levels.

73. All external expenditure would be covered by this Heading with the exception of international fisheries agreements and cooperation in the field of research. Conversely, no internal policies should be financed under this Heading – in particular, appropriations for the internal component of the future New Neighbourhood Instrument should be included in Heading 1b.

74. As regards the **commitment and payment schedules** envisaged for expenditure under this Heading, the Commission explained that: whilst payments are above the level of commitments for the period 2004-2006 due to the on-going payments for pre-accession aid to the 10 new Member States, from 2008 onwards payments progressively start to lag commitments due to the continuous increase in the level of commitments. With the budgetisation of the EDF this lag increases significantly.

75. The Commission furthermore suggests:

- that the **EDF** should be integrated into the Community budget for reasons of enhanced policy consistency, improved effectiveness and efficiency, the level of expenditure envisaged being at least equivalent to 0,031% of GNI in the period 2008-2013;

- that the architecture of the Union's external action should be **simplified** by replacing the existing multitude of instruments by **six instruments**:
  - two new instruments (which could be merged at a later stage) covering <u>economic cooperation and development</u> and <u>peace and security</u>; they would replace the existing geographical and thematic programmes;
  - a <u>unified pre-accession instrument</u> to replace PHARE, ISAP and SAPARD;
  - a <u>European neighbourhood instrument</u> aiming at cross-border cooperation between the enlarged Union and neighbouring countries;
  - a specific instrument for <u>humanitarian aid</u>; and
  - macro-financial assistance.

<u>POSITIONS OF DELEGATIONS</u>

76. Most delegations are generally supportive of the thrust of the Commission's approach with regard to the proposed simplification of the architecture of the Union's external actions. However, <u>several delegations</u> feel that consideration of the Commission's proposals would be assisted by more information on the break-down of allocations by geographical area and by instrument. As of now,

- <u>a few delegations</u> question the **overall increase**, in absolute terms, proposed by the Commission, whilst <u>others</u> stress that such an increase should not be at the expense of other policy areas;

- several delegations emphasise the importance of **flexibility** under this Heading and the need to maintain a sufficient margin under the ceiling for the Union to be able to respond to unforeseen events. Others believe that the existing flexibility instrument has proven its worth and there is no need for a level of funding with high margins;

- some delegations underline that the merger of **instruments** must not lead to a decrease in the levels of assistance to particular regions;

- some delegations emphasise the need to ensure that the proposed reduction in the number of instruments should not lead to a loss in transparency which would make oversight by Member States more difficult. They draw attention in particular to the issue of the committees which would be charged with managing the new programmes;

77. Delegations agree on the importance of meeting the commitments entered into at Monterrey; in this context, some stress the need to identify clearly, and possibly ring-fence, funding for development cooperation. Delegations remain at this stage divided over the Commission's proposal to integrate the **European Development Fund** into the budget.

IX. ADMINISTRATIVE EXPENDITURE

COMMUNICATION

78. In order to link administrative expenditure directly to operational expenditure, the Commission is proposing to include its administrative expenditure with operational expenditure under Headings 1 to 4 of the proposed financial framework for the 2007-2013 period. The administrative expenditure of the other institutions, pensions for all institutions and expenditure related to European schools would be under a separate residual Heading 5 ("Administration").

MAIN ISSUES

79. - whether the proposals are consistent with the principle of transparency;
    - clarification of the Commission's estimates for the evolution of expenditure.

<u>ELUCIDATION</u>

80. The Commission's considers that its proposal would make the presentation of the financial perspectives consistent with the ABB (activity based budgeting) approach followed for the annual budget. Such a presentation would also allow for more flexibility: appropriations indicatively estimated for administrative expenditure which are not used would constitute an unused margin under the ceiling of the Heading concerned or might, subject to the agreement of the budgetary authority, be used for operational activities under that Heading.

81. The Commission has provided a table (**Annex VI**) presenting indicative estimates for total Commission administrative expenditure for the period 2007-2013, broken down by the Headings proposed. The methodology used by the Commission for compiling the table is summarised in the same Annex.

<u>POSITION OF DELEGATIONS</u>

82. On the **approach**, <u>many delegations</u> consider that the proposal to allocate the Commission's administrative expenditure under the different Headings makes it more difficult, if not impossible, to monitor adequately the evolution of administrative expenditure over the period. <u>Delegations</u> accordingly suggest either keeping the current system of providing all administrative expenditure under a separate Heading (with the possibility of ring-fencing the Commission's administrative expenditure) or creating special sub-Headings for the Commission's administrative expenditure under Headings 1 to 4.

83. Regarding the **figures**, <u>several delegations</u> question the Commission's estimates concerning the share and development of its administrative expenditure under the 2007-2013 period (see Annex VI) and point to the need for further clarification from the Commission.

X. FINANCIAL PROGRAMMING

(*inter alia* the ratio of commitment and payment appropriations and the RAL, or "overhang")

COMMUNICATION

84. In order to be able to finance the various policies and actions presented in its Communication, the Commission proposes to allocate to the EU budget during the period 2007-2013, on **average, 1,26% of GNI for appropriations for commitments and 1,14% of GNI for appropriations for payments**. These figures are drawn up on the assumption that the European Development Fund and the Solidarity Fund will be brought into the financial perspectives. Under certain circumstances, the existence of differentiated appropriations used by the Union gives rise to the risk of a build up over time of an excessive stock, or "overhang" of unpaid commitment appropriations (known as the "reste à liquider" – "RAL").

MAIN ISSUES

85. - overall size of the RAL;
    - whether that the RAL might cause the own resources ceiling of 1,24% to be breached.

ELUCIDATION

86. According to the Commission, the estimated "RAL" at the end of the current financial perspectives (2006) will be €118 billion. By the end of the financial perspectives period under discussion (2013), and as a result of the significant average gap between commitment and payment appropriations (0,12% of EU GNI) during that period, the **"RAL" will have increased to some €225 billion**.

87. The Commission estimates that, assuming unchanged payment schedules, this RAL will be paid off over the 2014-2020 financial perspectives period at a rate which will decline from 0,60% of EU-27 GNI in 2014 to 0,01% in 2020. The level of new payments arising from new commitments entered into during that period will depend on a number of variables such as the future number of Member States, the future level of CAP expenditure, new policies, etc. However, on the assumption that policy commitments remain constant, actual payments during the post-2013 period could represent on average around 1,10% of GNI.

88. The methodology used by the Commission for estimating the level of payment appropriations is set out at Annex VII.

POSITIONS OF DELEGATIONS

89. While some delegations express understanding for the Commission's explanation, many delegations emphasise their strong concern at the very high level of outstanding commitments and the fact that the **RAL will almost double** by the end of the next financial perspectives. Once payments made or commitment appropriations booked in the years after 2013 are also taken into account, there is a serious risk that the **ceiling of 1,24% for own resources could be breached** at some stage during the financial perspectives from 2014 onwards.

90. In order to assess the RAL and the accompanying risks more clearly, several delegations asked for estimates of annual payments between 2014-2020 on the assumption that variables (policies, number of Member States, etc.) remain unchanged from the 2007-2013 period. Information on the precise contribution of different policies to the RAL and on the position if the European Development Fund were to remain outside the budget is also relevant.

91. Delegations also suggest various ways for **improving** the position. These include

- setting commitments at a lower level than envisaged by the Commission (taking into account the low implementation rate of payment appropriations in the past);

- rigorously applying the "n+2" rule on decommitments and possibly extending it, or something similar, to areas other than the cohesion funds;

- better implementation of policy through better management and simplification. The forthcoming proposals on instruments and governance could be of relevance in this respect.

XI. THE FINANCING SYSTEM

A. Structure of own resources

COMMUNICATION

92. The present own resources system has performed relatively well from a financial point of view and, accordingly, the Commission does not intend proposing a new own resource for the near future. Subject however to the conclusions of a report on the functioning of the system it intends to adopt before summer 2004, the Commission could at a later stage launch a process to create the basis for a new own resource to replace an important part of national contributions in the medium term.

93. According to the Commission a relatively major and visible tax resource payable by EU citizens and/or economic operators could partly replace GNI contributions. That would shift the Union's own resources system from financing predominantly based on national contributions towards a system which would better reflect a Union of Member States and the people of Europe. A tax on corporate income, a "genuine" VAT resource and an energy tax have been flagged as possibilities in this regard.

MAIN ISSUES

94. - whether the current system requires reform; can it be simplified;
- should the VAT resource be replaced by a larger GNI-based resource;
- should a new EU tax-based resource be envisaged.

ELUCIDATION

95. Despite its advantages, the Commission considers that the current own resources system suffers from a lack of transparency and clarity.

96. The Commission points out that a tax on the lines suggested would not increase the tax burden on citizens. The EU tax rate could be offset by an equivalent decrease of the rate accruing to the national budget from the same or other national taxes. This would be possible because the new tax-based resource would partially replace Member States' GNI-based contributions.

POSITIONS OF DELEGATIONS

97. A majority of delegations are either opposed to the idea of a **new EU tax-based own resource** or feel that consideration of it is premature at this stage. Others, however, find merit in the idea, referring inter alia to the importance of enhancing the Community's financial autonomy. They accordingly wish the Commission to pursue actively its reflections and to table proposals at an early stage. Other delegations declare themselves open on the matter.

98. A large number of delegations concur in the view that the current financing system, while performing reasonably well from a financial point of view, is excessively complex and lacks transparency. They are therefore in favour of exploring ways of **simplifying** it. In this connection, a certain number of delegations express interest in exploring the idea of **replacing** the current VAT-based own resource by **GNI-based contributions**.

B. Correction mechanism

COMMUNICATION

99. Since the mid-1980s, a correction mechanism, financed by the other Member States, has existed for one Member State. In accordance with the Own Resources Decision of September 2000, the contribution of four Member States to this compensation has been reduced to 25% of their normal share. The Commission is now proposing to establish a generalised correction mechanism intended to "correct excessive negative net balances" and aiming at a "fair treatment of Member States which have a similar capacity to contribute to the EU budget".

MAIN ISSUES

100. - whether the current mechanism should be continued, extended or abolished;
- how a revised mechanism might function.

ELUCIDATION

101. The generalised correction mechanism would correct net contributions in excess of a certain pre-defined threshold of adequate "financial solidarity", defined as a percentage of GNI, in line with relative prosperity. The effect of the generalised mechanism should be limited to avoiding excessive, unjustified, fiscal burdens and all Member States should contribute to it.

102. In order for the mechanism to function properly, the Commission indicates that a number of parameters need to be defined, including: categories of expenditure and revenue; the level of the threshold beyond which net budgetary imbalances would be (partially) compensated; percentage of the excessive negative imbalance to be corrected; and the related financing rules. The Commission's detailed proposals in the context of the overall financial package will address both revenue and expenditure issues.

POSITIONS OF DELEGATIONS

103. Many delegations oppose introducing a generalised correction mechanism, which they feel would be complicated, non-transparent and likely to encourage the notion of *juste retour*. There are also calls for the abolition of the rebate which has benefited one Member State since the mid-1980s as, in the view of several delegations, this has lost its *raison d'être*. This is contested by the Member State in question, which states that the distortions that gave rise to the rebate in the first place remain.

104. A small number of delegations, on the other hand, are in favour of a generalised correction mechanism inter alia as a way of addressing the problem of Member States' relative positions. Some others are willing to examine this approach.

XII. CONCLUSIONS

105. Despite Member States' differing positions on the overall expenditure ceiling and appropriate methodology, all delegations have shown themselves willing to engage constructively in the current analytical exercise. Nevertheless, the Presidency is aware that at this early stage of the process, any conclusions are necessarily tentative and of a fairly general character. Specific points are set out under individual headings in the body of the Report; the Presidency would add some concluding comments on the basis of the discussions.

Ceiling/Methodology

106. It is clear that the different positions on the expenditure ceiling, and the arguments advanced in support of those positions, will not be easily reconciled. The Presidency considers it important that the objectives of (i) adequately funding the stated priorities of the enlarged Union and (ii) adhering to principles of budgetary discipline, efficient targeting of funding and added value, should not be viewed as in contradiction with one another. Both objectives are a common concern for all Member States. In the view of the Presidency, therefore, both objectives must inform the deliberations of the Council as work goes forward on the future financial perspectives, without prejudice to the final decision to be taken on the overall expenditure ceiling.

Structure/Flexibility

107. Within the context of achieving more efficient delivery of resources, delegations generally see merit in the Commission's proposals regarding the simplification of financial instruments, although further consideration regarding oversight mechanisms may be needed. Similarly, although delegations have highlighted a number of areas where they wish to see dedicated sub-Headings, many delegations support the proposals to streamline the number of Headings in line with the Union's major policy objectives. On the other hand, the Commission's proposals to develop additional flexibility instruments do not command wide support. Given delegations' concerns that such mechanisms could dilute budgetary discipline rather than promote a more effective use of resources, considerable further justification would be required if they are to have any prospect of acceptance.

108. The Presidency is of the view that further consideration of the structure of the new financial framework should take account of the need to maintain the content of policies. In the interests of transparency and coherence, spending should be consolidated by policy within the same Heading. A clear message should be conveyed as to the Union's political priorities without, however, creating artificial Headings that conflict with the need for transparency. Further breakdown by Headings or sub-Headings should be provided where this is necessary in order to gain clarity as to what exactly can be financed under each Heading and to avoid legal uncertainty.

Administrative Expenditure

109. As regards administrative expenditure, the prevailing view among Member States is that, so as to ensure that strict controls are maintained on administrative spending, it will be necessary to identify the amounts envisaged under each of the proposed Headings. There is a strong preference for administrative expenditure either to be set out in a separate heading, as in the current financial perspectives, or else for it to be identified as a clearly ring-fenced amount under each Heading.

Individual Headings

110. As regards Competitiveness for growth and employment, Member States have expressed broad agreement as to the high priority to be attached to measures in support of the Lisbon Strategy. Similarly, they recognise the role of the Cohesion policy as defined in the Treaty and agree its role in promoting convergence in the context of the enlarged Union.

111. Member States recognise the commitments already made in respect of the Common Agricultural Policy and, in this context, they support the objective of integrating a focus on the sustainable management of resources more generally.

112. The area of Citizenship, Freedom, Security and Justice (in particular the Justice and Home Affairs elements) is recognised by all delegations as being of high priority for the Union. There is general support for the Commission's approach as regards the need to combat terrorism, control the external borders, combat trafficking, and achieve further progress in the area of asylum procedures.

113. Finally, Member States are generally supportive of the overall thrust of the Commission's approach with regard to the EU as a Global Partner, although with important reservations as regards financing in some cases. Most delegations also see merit in the proposal to simplify the architecture of the Union's external actions.

114. In general, therefore, Member States are broadly supportive of the priority areas (Lisbon, Cohesion, JHA, external projection of the Union) identified by the Commission and they also recognise pre-existing commitments (particularly in relation to the CAP). As in any budgetary exercise, the problem arises as to how finite resources are to be allocated between valid but competing priorities. Although the prioritisation challenge becomes more acute to the degree the ceiling is lowered, it remains an inescapable part of the exercise at any ceiling level. At the same time, it is important to recognise that prioritisation of itself does not provide an easy nor necessarily a scientific answer. Since an assessment of priorities is bound to be conditioned to some extent by national perspectives, and since there are qualitative difference among various areas of expenditure, attempts to establish a definitive hierarchy for the Union as a whole are unlikely to fully succeed. The Presidency reiterates therefore that the way forward is

likely to involve a combination of stricter prioritisation than is evidenced in the initial Commission Communication together with a political judgement by Member States as to the level of expenditure that reflects their ambitions and vision for the Union in the years ahead.

Underlying economic assumptions

I. The estimates of EU-27 Gross National Income – from which the Commission derives the figures for payment appropriations as a percentage of GNI appearing in the overview table on page 29 of its Communication – are based on the assumption that average annual growth in real terms will be 2,3% a year over the period 2007-2013. This breaks down as follows:

EU-15	:	2,2%
10 new Member States	:	4,1%
Bulgaria and Romania	:	5,6%

These numbers are based on the Commission's Autumn 2003 economic forecast for 2004-2005 and on a long-term forecast by DG ECFIN drawing on projections for the population of working age, employment, investment and technical progress.

Inflation is assumed to remain constant at 2% per year.

II. At the request of several delegations, the Commission provided the following illustrating the sensitivity of the ceilings for commitment and payment appropriations to economic growth assumptions ranging from 1,5% to 3,5% per year.

III. In response to delegations' questions and comments, the Commission further indicated that new forecasts for economic growth were due in Autumn 2004 which could necessitate a re-calculation of the ceilings for commitment and payment appropriations and thus the margin between those ceilings and the Own Resources ceiling. In this connection, it indicated that GNI forecasts for the individual Member States were currently available up to 2005 and would be available up to end-2006 in the Autumn. Furthermore, the Commission would try to provide further detail on the hypotheses used by DG ECFIN in its long-term forecasts.

IV. It was recalled that the amount of structural funds a Member State could receive in a year is capped at 4% of its GDP. The question arose as whether the cap could be adjusted in the event of GDP growing faster than 4%. The Commission confirmed that, unlike the 75% of average Community GDP eligibility criterion for Objective 1 status, which was based on a reference period, the GDP used to calculate the annual 4% cap will remain the GDP estimated at the start of the period. It will not be adjusted during the period. This method could work in either direction, since it meant that a Member State in which growth had been less than estimated would still receive the original amount of structural assistance programmed.

WORKING DOCUMENT OF THE COMMISSION SERVICES

Subject: Underlying assumptions concerning economic growth till 2013. Sensitivity of ceilings to economic growth assumptions
Total appropriations as a percentage of GNI: sensitivity with respect to economic growth

(in million of euro)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total appropriations for commitments	133.560	138.700	143.140	146.670	150.200	154.315	158.450
Total appropriations for payments	124.600	136.500	127.700	126.000	132.400	138.400	143.100

(in percentage of GNI)							
1.5% economic growth							
commitments	1,24%	1,27%	1,29%	1,30%	1,32%	1,33%	1,35%
payments	1,16%	1,25%	1,15%	1,12%	1,16%	1,19%	1,22%
2% economic growth							
commitments	1,24%	1,26%	1,27%	1,28%	1,28%	1,29%	1,30%
payments	1,15%	1,24%	1,14%	1,10%	1,13%	1,16%	1,18%
2,3% economic growth (Commission hypotheses)							
commitments	1,23%	1,25%	1,26%	1,26%	1,26%	1,27%	1,27%
payments	1,15%	1,23%	1,12%	1,08%	1,11%	1,14%	1,15%
3% economic growth							
commitments	1,22%	1,23%	1,24%	1,23%	1,22%	1,22%	1,22%
payments	1,14%	1,21%	1,10%	1,06%	1,08%	1,09%	1,10%
3,5% economic growth							
commitments	1,22%	1,22%	1,22%	1,21%	1,19%	1,18%	1,18%
payments	1,14%	1,20%	1,09%	1,04%	1,05%	1,06%	1,06%

Correspondence between ABB nomenclature and the new structure proposed for the 2007-2013 FINANCIAL PERSPECTIVE*

NEW EXPENDITURE HEADINGS **	2004 ABB structure	2004 BUDGET commitments in €**	Headings current FP**
1. SUSTAINABLE GROWTH	(1)	(2)	(3)
1.a. Competitiveness for growth and employment		8.160.020.157	
EDUCATION & TRAINING (excl. culture)	15	716.462.663	3
RESEARCH (including research from ENTR, TREN & FISH)	08 & 10 research from 02, 06 & 11	3.869.977.121	3
INFORMATION SOCIETY (excl. eTENs)	09	1.171.168.858	3
ENTERPRISE (excluding research)	02 excl. research	286.300.025	3
INTERNAL MARKET	12	100.307.570	3
COMPETITION	03	128.111.013	3
ECONOMIC AND FINANCIAL AFFAIRS (excl. loan guarantee reserve & macrofinancial assistance)	01	196.229.341	3
TAXATION AND CUSTOMS UNION	14	135.900.308	3
STATISTICS	29	126.959.387	3
ENERGY AND TRANSPORT (excl. research)	06 excl. research	1.175.960.640	3
INFORMATION SOCIETY (excl. research)	09	46.543.788	3
EMPLOYMENT & SOCIAL AFFAIRS (expenditure under current heading 3 'internal policies')	04	142.254.887	3
Other (a)	20, 24 & 25	63.844.554	3
1. b. Cohesion for growth and employment		37.264.096.095	
REGIONAL POLICY - FEDER, interreg	13	20.662.874.324	2
REGIONAL POLICY - Cohesion Fund	13 04	5.703.531.294	2
EMPLOYMENT AND SOCIAL AFFAIRS	04	10.716.401.764	2
AGRICULTURE (part of LEADER)	05 04	181.288.713	2
SOLIDARITY FUND (p.m.)		p.m.	
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES		51.844.700.829	
ENVIRONMENT (excl. external dimension)	07	358.670.562	3
AGRICULTURE- incl. measures under current heading 3 and rural development	05	50.120.919.669	
of which (operational expenditure only): 'market measures'	*05*	*39.948.310.000*	*1a*
rural development'	*05*	*6.536.000.000*	*1b*
rural development'+ part of LEADER	*05*	*3.382.216.183*	*2*
forestry' and 'controls and inspections'	*05*	*51.735.000*	*3*
HEALTH & CONSUMER PROTECTION (animal health, animal welfare and plant health)	17 04	373.081.220	1a
FISHERIES (excl. research)	11 excl. research	992.029.379	
of which (operational expenditure only): 'market measures'	*11*	*33.075.000*	*1a*
structural interventions'	*11*	*631.786.662*	*2*
governance' and 'controls and inspections'	*11*	*80.235.979*	*3*
fisheries international'	*11*	*194.000.000*	*4*
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE		1.493.941.204	3
CULTURE	15	292.800.680	3
EMPLOYMENT & SOCIAL AFFAIRS - fight against discrimination and gender equality	04 04	30.939.057	3
JUSTICE & HOME AFFAIRS	18	553.874.686	3
HEALTH & CONSUMER PROTECTION (excl. animal health, animal welfare and plant health)	17 (excl. 17 04)	152.583.009	3
PRESS & COMMUNICATION	16	212.248.947	3
ENLARGEMENT -Transition facility (institution building)	22 03	251.494.826	3

4. THE EU AS A GLOBAL PARTNER		7.934.652.955	
EXTERNAL RELATIONS	19	3.733.619.754	
of which (operational expenditure only): 'external relations'	*19*	*3.359.331.000*	*4*
'aid to the victims of human rights violations'	*19*	*7.000.000*	*3*
AGRICULTURE (SAPARD)	05	233.438.885	4
REGIONAL POLICY (ISPA)	13	455.017.729	7
TRADE	20	92.402.723	4
DEVELOPMENT & COOPERATION WITH ACP COUNTRIES	21	1.240.432.937	4
ENLARGEMENT (excl. transition facility)	22 excl. 22 03	1.086.499.047	7
HUMANITARIAN AID	23	516.991.881	4
EUROPEAN DEVELOPMENT FUND (Outside the EU budget in 2004)	[21]	-	
ECFIN- Loan guarantee reserve	01 04 01 13	221.000.000	6
ECFIN - macrofinancial assistance	01	90.200.000	4
RESERVE-Emergency aid reserve	31	221.000.000	6
Other (b)	06, 07, 14 & 15	44.050.000	4
5. ADMINISTRATION **		3.193.302.062	
ADMINISTRATIVE EXPENDITURE - other institutions		2.248.680.000	5
Pensions	30	817.641.000	5
European Schools	26 01 50	126.981.062	5
TOTAL (incl. compensation)	**thirty-one policy areas**	**111.300.258.359**	
TOTAL COMMISSION		**109.051.578.359**	

Compensation		1.409.545.056	8

* The new structure referred to in the present table corresponds to the one proposed by the Commission in its communication of 10 February 2004, COM(2004)101 final.
* *In the current FP structure the Commission administrative expenditure, together with the other institutions, is included in the separate heading 5. As proposed in the COM(2004) 101 final, the Commission administrative expenditure is to be included in the relevant policy area. In this table, the Commission administrative expenditure under the current heading 5 (EUR 2 846 469 262) is broken down by policy areas in line with the proposed new approach. Administrative expenditure concerning administrative 'horizontal' Commission services (Audit, Administration, Budget, Policy Coordination) has been broken down as 'overheads' in proportion to the administrative expenditure directly related to each of the remaining policy areas, on the basis of the PDB 2004. One exception concerns the policy area PENSIONS, which (together with expenditure for the European Schools) remains under the re-defined heading 'Administration'.

(a) Includes specific actions related to fight against fraud, trade, public procurements procedures, and Prince (information on the future of Europe).
(b) Includes external dimension of internal policies (education, environment, taxation & customs union, energy & transport, justice & home affairs).

INDICATIVE BREAKDOWN OF FIGURES WITHIN EXPENDITURE HEADINGS *

(Million euro at 2004 prices)	2006	2007	2008	2009	2010	2011	2012	2013
1 - Sustainable growth								
1a - Competitiveness for growth and employment	**8.791**	**12.105**	**14.390**	**16.680**	**18.966**	**21.250**	**23.540**	**25.825**
- **IMPROVE THE QUALITY AND ATTRACTIVENESS OF EU EDUCATION AND TRAINING**	650	950	1.250	1.550	1.850	2.150	2.450	2.750
- **ESTABLISHING A EUROPEAN RESEARCH AREA, PROMOTE SCIENTIFIC AND TECHNOLOGICAL EXCELLENCE AND ACHIEVE "3%" INVESTMENT IN RESEARCH AND INNOVATION**	5.256	6.325	7.525	8.750	9.950	11.175	12.375	13.600
- **PROMOTING THE COMPETITIVENESS, SECURITY AND ENVIRONMENTAL SUSTAINABILITY OF EU TRANSPORT, ENERGY AND TELECOM NETWORKS**	1.175	1.675	2.200	2.725	3.250	3.775	4.275	4.800
- **Growth adjustment fund**		1.000	1.000	1.000	1.000	1.000	1.000	1.000
- *Promoting competitiveness and entrepreneurship in a fully integrated internal market, Implementation of the social policy agenda,* other actions, administration	1.711	2.155	2.414	2.655	2.916	3.151	3.439	3.675
1b - Cohesion for Growth and Employment	**38.791**	**47.569**	**48.405**	**49.120**	**49.269**	**49.410**	**50.175**	**50.960**
- **PROMOTING CONVERGENCE OF LESS DEVELOPED MEMBER STATES AND REGIONS** (incl. 'statistical' phasing out)	28.608	34.723	36.039	37.249	37.947	38.657	39.355	40.074
- **SUPPORTING REGIONAL COMPETITIVENESS AND EMPLOYMENT OUTSIDE THE LESS PROSPEROUS REGIONS** (incl. 'natural' phasing out)	6.989	9.818	9.241	8.641	8.027	7.396	7.391	7.385
- **SUPPORTING EUROPEAN TERRITORIAL CO-OPERATION**	1.975	1.791	1.888	1.989	2.050	2.111	2.177	2.245
- **EU SOLIDARITY FUND**	961	942	924	906	888	871	853	837
- OTHER (incl. other actions and administration)	259	295	314	335	357	376	399	419
2 – Conservation and management of natural resources	**56.015**	**57.180**	**57.900**	**58.115**	**57.980**	**57.849**	**57.825**	**57.805**
- **PROMOTE A MORE COMPETITIVE, MARKET ORIENTED AND SUSTAINABLE EU AGRICULTURE**	43.735	43.500	43.673	43.354	43.034	42.714	42.506	42.293
- **SUPPORTING AND STRENGTHENING RURAL DEVELOPMENT**	10.544	11.575	12.050	12.500	12.600	12.725	12.850	12.975
- **PROMOTE COMPETITIVE AND SUSTAINABLE FISHERIES** (incl. international fishery agreements)	909	1.025	1.050	1.075	1.100	1.100	1.125	1.125
- **MAINTAINING A CONTINUING HIGH LEVEL OF PROTECTION OF THE ENVIRONMENT AND PROMOTING THE SUSTAINABLE USE AND MANAGEMENT OF RESOURCES**	254	275	300	325	350	375	400	425
- OTHER (incl. other actions, administration)	573	804	827	862	897	934	944	987
3 - Citizenship, freedom, security and justice	**1.381**	**1.630**	**2.015**	**2.330**	**2.645**	**2.970**	**3.295**	**3.620**
- **PROTECT FUNDAMENTAL RIGHTS, PROMOTE SOLIDARITY IN RELATION TO FREE MOVEMENT OF PERSONS, STRENGTHEN PREVENTION OF AND FIGHT AGAINST CRIME**	479	625	850	1.025	1.200	1.375	1.550	1.725
- *Promoting a high level of public health and consumer protection, Fostering European culture and citizenship,* other actions, administration	901	1.004	1.165	1.304	1.445	1.595	1.745	1.895
4 - External policies: The EU as a global partner	**11.232**	**11.400**	**12.175**	**12.945**	**13.720**	**14.495**	**15.115**	**15.740**
- **THE EU and ITS NEIGHBOURHOOD**	4.095	3.325	3.625	3.875	4.225	4.500	4.600	4.800
- **THE EU AS A SUSTAINABLE DEVELOPMENT PARTNER** (incl. EDF)	4.849	4.850	5.200	5.625	5.950	6.350	6.575	6.850
- **THE EU AS A GLOBAL PLAYER**	710	1.575	1.625	1.675	1.700	1.750	1.950	2.025
- **Loan guarantee and emergency aid reserves**	442	442	442	442	442	442	442	442
- OTHER (incl. administration)	1.136	1.208	1.283	1.328	1.403	1.453	1.548	1.632
5 - ADMINISTRATION (other institutions, pensions and Eur. schools)	**3.436**	**3.675**	**3.815**	**3.950**	**4.090**	**4.225**	**4.365**	**4.500**
COMPENSATION	1.041							
TOTAL (COMMITMENTS APPROPRIATIONS)	**120.688**	**133.560**	**138.700**	**143.140**	**146.670**	**150.200**	**154.315**	**158.450**

*) This table is prepared by the Commission services for illustrative purposes only. The Commission reserves its right to adjust the figures in subsequent phases.

BREAKDOWN OF HEADING 1b

<table>
<tr><td>Heading 1 b
Commitment appropriations (2007-2013)</td><td>Million € at 2004 prices</td><td></td></tr>
<tr><td>Convergence objective (incl. "phasing-out" regions)</td><td>264.044</td><td rowspan="3">0,41% GNI</td></tr>
<tr><td>Regional competitiveness and employment objective (incl. "phasing-in" regions)</td><td>57.899</td></tr>
<tr><td>Territorial cooperation objective</td><td>14.251</td></tr>
<tr><td>Total 3 objectives</td><td>336.194</td><td></td></tr>
<tr><td>EU Solidarity Fund</td><td>6.221</td><td></td></tr>
<tr><td>Administrative expenditure</td><td>2.495</td><td></td></tr>
<tr><td>TOTAL</td><td>344.908</td><td></td></tr>
</table>

1. Arrangements for "phasing-out" regions

The *main features* of the proposed arrangement are:

– when determining for each Member State the amounts of the appropriations allocated to statistical "phasing-out" regions the Commission will use a bottom-up approach. This will be identical to the approach for the regions that will be fully eligible for the Convergence objective, i.e. a level of support proportional to the development deviation of each region concerned from the Community average, while taking into account the level of national prosperity and the unemployment rate where this is high. Their development level will be considered as being at 75% of the Community average;

– the aid intensity per capita will be capped at 85% of the aid level in 2006;

– in consequence, the aid intensity per capita will be different in each eligible region;

– degressivity (by 5 percentage points a year starting in 2009) will be applied to the allocation calculated for each region;

– a more advantageous state aid regime will apply (an intermediate stage between Art. 87(3)(a) and Art. 87(3)(c);

– a 75% co-financing rate, as under the Berlin "phasing-out" arrangements, will apply;

– phasing-out regions that were not eligible for Objective 1 status in 2000-2006 and those from the newly-joining Member States will constitute a special case and will benefit from a fair and non-discriminatory solution;

– support will end in 2013 and there will not automatically be a new phasing-out period.

2. Arrangements for "phasing-in" regions

The *main features* of the proposed arrangement for these so-called "phasing-in" regions are:

– the amounts of the appropriations allocated for phasing-in regions for each Member State will be calculated in the same way as the amounts for the "statistical phasing-out" regions, subject however to the elements set out below:

- the aid intensity per capita will be capped at 75% of the aid level in 2006 and at 80% for the sparsely populated regions;

- accordingly, as in the case of the "phasing-out" regions, aid intensity per capita will be different in each eligible region;

- Community support will however be reduced more steeply than for the "statistical phasing-out" regions. Between 2008 and 2010 the annual allocation will be reduced in a linear manner. Between 2011 and 2013 the regions concerned will receive aid per inhabitant equivalent to that which will be paid in areas eligible for the new "Regional competitiveness and employment" objective, i.e. an average aid intensity of €21. This figure is lower than the current average aid intensity of Objective 2 (€41);

- the State aids regime to be applied will be that of Article 87(3) (c) and not that of Article 87(3)(a);

- a co-financing rate of 50% will apply compared to the current 75%;

- the actions eligible under the new Regional competitiveness and employment objective will be much more limited than those eligible under Objective 2 during 2000-2006;

- the regions of the new Member States will constitute a special case and will benefit from fair and non-discriminatory treatment.

OVERVIEW OF THE NEW FINANCIAL FRAMEWORK 2007-2013

INDICATIVE ESTIMATES FOR ADMINISTRATIVE EXPENDITURE

Million € at 2004 prices

COMMITMENT APPROPRIATIONS	**2006** (a)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Commission administrative expenditure								
1. Sustainable growth								
1a. Competitiveness for growth and employment	*1125.*	*1.290*	*1.390*	*1.490*	*1.580*	*1.680*	*1.770*	*1.870*
1b. Cohesion for growth and employment	*244*	*280*	*300*	*320*	*340*	*360*	*380*	*400*
2. Preservation and management of natural resources	*517*	*560*	*580*	*600*	*630*	*650*	*670*	*690*
3. Citizenship, freedom, security and justice	*335*	*410*	*450*	*490*	*540*	*580*	*620*	*670*
4. The EU as a global partner	*842*	*920*	*970*	*1.020*	*1.070*	*1.110*	*1.160*	*1.210*
Other support administrative expenditure (b)	*360*							
Administrative expenditure - Total Commission	***3.423***	***3.460***	***3.690***	***3.920***	***4.160***	***4.380***	***4.600***	***4.840***

5. Administration (other institutions, pensions and European schools)	**3.436**	**3.675**	**3.815**	**3.950**	**4.090**	**4.225**	**4.365**	**4.500**

Total adminsitrative expenditure	***6.859***	***7.135***	***7.505***	***7.870***	***8.250***	***8.605***	***8.965***	***9.340***

(a) 2006 expenditure under the current financial perspective has been broken down according to the proposed new nomenclature for reference and to facilitate comparisons.

(b) Includes so-called 'mini budgets' under heading 2 'structural actions', and former so-called 'BA lines' in heading 3 'internal policies' and heading 4 'external actions'.

Methodology used by the Commission for calculating estimates of administrative expenditure during the 2007-2013 period

The starting point for the calculation is the present ceiling for Heading 5 for the year 2006 (EU-25), i.e. € 6,5 billion (in 2004 prices). The Commission's share (excluding pensions and European schools) is 47%.

An additional amount of € 360 mio euros has been added in order to include administrative expenditure financed by operational budget lines (mostly ex B…A-lines and the so-called mini-budgets of Structural Funds). Administrative expenditure for Research has not been included, because it is included in the total of the Research Framework Programme.

The "enlargement effect" has been incorporated on the basis of the Third Report of Secretaries-General on the trends in current Heading 5 of July 2003. By 2006, the enlargement "phasing-in" for other institutions will be completed, whilst for the Commission it will continue until 2009 (i.e., beyond the present financial perspectives). Administrative expenditure figures include also the effect of enlargement to include Romania and Bulgaria in 2007.

The Commission has used a "dynamic policy scenario" to take into account the proposed increase in activities during the 2007-2013 period. This model assumes a ratio of 100 to 60 in terms of increases in operational expenditure and administrative expenditure. On this basis the Commission's projection for a 32% increase in operational expenditure over the period will result in a 19% increase in administrative expenditure.

The breakdown of administrative expenditure per Heading has been calculated on the basis of the current share of various policy areas in the budget. "Modulation" has been applied to take account of the fact that increases in operational expenditure entail different increases in administrative expenditure depending on the policy in question.

The Commission has also included in the calculations a real increase, on average, of 1,5% in remuneration.

The evolution of pensions has been extrapolated from the current pattern (+6,5% per year). In relation to European schools, the number of children and related expenditure is assumed to increase in proportion to the number of staff.

As regards the proposed Heading 5 ("Administration"), amounts are based on Commission estimates, not on figures presented by the other Institutions concerned.

ANNEX VII

Methodology for estimating the level of payment appropriations in the Commission's Communication on the Financial Framework 2007-2013 and forecasts concerning the RAL

1. The estimates for payment appropriations presented in the Commission's Communication on the financial framework 2007-2013 are based on the assumption that no decommitments will take place and that all commitments will be fully paid out according to the following payment schedules:

   – for expenditure subject to non-differentiated appropriations (in particular the CAP and the Solidarity Fund), commitments are fully paid in the course of the relevant year,

   – for external policies (including the European Development Fund), the payment schedule would be that used for Agenda 2000,

   – for other expenditure, the payment schedule adopted at the Copenhagen European Council would be used,

   – as regards the payment of unpaid commitments (RAL) at the end of 2003, the Commission has chosen a payment schedule which consists of:

     – spreading the payment of the RAL from the 1993-1999 Structural Funds programming period over most of the 2000-2006 programming period and assuming that no further payments concerning Structural Funds are needed after 1.1.2007,
     – paying out fully the RAL concerning the 2000-2006 Structural Funds programming period, in respect of the "*n+2*" rule (no decommitments are assumed for the 2000-2006 or 2007-2013 programming periods). Concerning the Cohesion Fund, the RAL is assumed to be paid out over a 5 year period,
     – not taking into account payments accumulated before 2008 as regards the European Development Fund.

2. The gap between commitments and payments resulting from these schedules is estimated to increase from an average of 0,02% of GNI under the current Financial Perspective to 0,12% of GNI during the 2007-2013 period. This increased gap is the consequence of:

   – a significant increase in the level of commitment appropriations over the period 2007-2013 as compared with the current financial perspectives, especially as regards internal, external and Cohesion policies,

– an increase in the relative share of differentiated appropriations related, *inter alia,* to the decrease of CAP expenditure (non-differentiated appropriations) and the introduction of differentiated appropriations in rural development expenditure. Budgetisation of the European Development Fund would furthermore add to the differentiated appropriations share. In 2007-2013, non-differentiated expenditure would represent on average approximately 35% of global commitments, compared to 50% in Agenda 2000.

3. The factors set out above would lead to an estimated RAL of some €225 bn at end- 2013, compared to €104,5 bn at end-2003 and an estimated RAL of some €118 bn at end-2006. This can be broken down as follows:

	current prices (€mio)	2004 prices (€mio)
RAL end-2006	118.387	102.501
Commitments 2007-2013	1.154.502	1.025.035
Payments 2007-2013	1.047.737	928.700
RAL end-2013	225.152	181.278

4. The RAL is an inevitable consequence of the dual expenditure system (commitments and payments) used by the EU. It is difficult to establish a direct link between the RAL and, for example, absorption capacity, the most important factor in this respect being the ability to identify viable projects and programmes and to commit expenditure to these.

– A distinction between "normal" and "(potentially) abnormal RAL" could be useful, the latter having been defined on 21 November 2001 by common agreement between the European Parliament, Council and Commission as being composed of dormant commitments, for which no payment has been carried out during the last two years, and old commitments, registered in the budget for at least 5 years.

5. Concerning the envisaged payment profile during the 2007-2013 period, there will be significant "payment peaks" in 2007 (1,15% of GNI) and, especially, in 2008 (1,23% of GNI) compared to the average of 1,14% during the 2007-2013 period. These "peaks" are likely to be followed by "payment dips" in 2009 and, especially, in 2010.

– Both "peaks" and "dips" are due largely to the Structural Funds. The cause of payment peaks is the overlap between the final phase of the 2000-2006 and start-up of the 2007-2013 programming periods. Payment dips arise when no further advance payments for the 2007-2013 programming period and no further payments for the 2000-2006 programming period are scheduled;

– Technically, a reprogramming ("*lissage*") of payment schedules always remains possible in case of important "payment peaks" or "dips".

6. Concerning the possible payment profile of the RAL at end-2013 and over the 2014-2020 period, and assuming that payment schedules remain unchanged, RAL payments could decline from 0,60% of EU27 GNI in 2014 to 0,01% in 2020. The payments resulting from commitments in the period 2014-2020 will depend *inter alia* on the future level of CAP expenditure, on the number of Member States, *etc.*

Ad Hoc Group on the Future Financial Perspectives: List of fiches to Coreper

Coreper was assisted in its work by an ad hoc Group of experts. The Group examined a series of technical questions on which the Chair of the Ad Hoc Group reported to Coreper in the form of fiches. These addressed the following areas:

Fiche No.1:	Underlying economic assumptions
Fiche No. 2:	New structure of the Financial Framework
Fiche No. 3:	Flexibility mechanisms
Fiche No. 4:	Ratio of commitment appropriations to payments (including the RAL, or "overhang")
Fiche No. 5:	Competitiveness for growth and employment (Heading 1a)
Fiche No. 6:	Cohesion for growth and employment (Heading 1b)
Fiche No. 7:	Sustainable management of natural resources (Heading 2)
Fiche No. 8:	Giving full content to European Citizenship
Fiche No. 9:	The EU as a Global Partner
Fiche No. 10:	Administrative Expenditure