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PROGRESS REPORT

from :	the Presidency
to :	Council
Subject :	Financial Perspectives 2007-2013

INTRODUCTION

1. Delegations will find attached a consolidated progress report of discussions in the Ad Hoc Group on Financial Perspectives and COREPER on the **Commission's proposals** for the Financial Perspectives for 2007-2013. These discussions were structured according to two questionnaires drawn up by the Presidency, and supplemented by written input from the Commission services[1]. Delegations' positions on various issues raised by the Commission's proposals are set out in this report, which the Presidency emphasises reflects the state of play at this stage of proceedings and accordingly in no way prejudices the future or final positions of delegations.

[1] This input is listed at Annex.

2. This examination has formed an integral part of the *"building block" approach*. This approach consists in broadening the debate by focussing more on the content of various individual policies and the amount of resources they entail with a view to identifying a range of policy choices together with their financial implications. This approach will contribute to meeting the objectives set for the December 2004 European Council and complies with the June 2004 European Council conclusions to take full account of the range of positions of Member States. A document setting out the building blocks for the full range of headings has been submitted separately to the Council (doc. 14714/04). This reflects the outcome of work on the building blocks both in the Ad Hoc Group and COREPER.

3. Endorsement of this approach by the Council was achieved *without prejudice* to the general positions adopted by delegations as to the overall ceiling of the future Financial Perspective as set out in the Analytical Report from the Irish Presidency (doc. 10219/04 CADREFIN 11, pages 6-8) and *on the understanding* that

   a) Commission proposals, in accordance with normal institutional practice, constitute the basis for work in the Council; this being the case, it was pointed out that those proposals could not be considered as simply one option among others emerging in the course of the building blocks process, although some have observed that Commission proposals in the budgetary field do not enjoy the same status as ones in the legislative field;

   b) pursuing work on an individual policy basis should not lead to a loss of overview of what has to remain a global negotiation, where nothing can be considered as agreed until everything is agreed. This concept of globality encompasses not only the fact that the individual policy areas must be seen together in the context of overall expenditure but also the fact that expenditure must be seen in the context of the overall negotiation including the question of own resources in all its aspects as well as the IIA;

c) whereas examination of the European added value of proposed expenditure is accepted as an essential part of the evaluation exercise, it was pointed out that this concept could not be based on entirely objective criteria; it is also generally recognised that the concept of added value should serve not to put into question Union policies which are based on fundamental agreed principles laid down in the Treaty but simply to evaluate the best means of achieving a given objective;

d) applying this working method to the Financial Perspectives in their proposed structure must not prejudice the outcome of discussions on their final structure.

4. This document will be integrated in the final report which the Presidency will draw up for the December European Council. That report will *in addition* contain the complete set of building blocks with budgetary ranges, delegations' general approach on expenditure, as well as sections covering progress made in discussions on the Interinstitutional Agreement and flexibility and on Own Resources.

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HEADING 1a

COMPETITIVENESS FOR GROWTH AND EMPLOYMENT

GENERAL OBSERVATIONS

5. *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 polices 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.*

6. *The Commission envisages that spending on these objectives should increase by 194% (compared to spending in 2006) to reach € 25.8 billion in 2013*[1]*. Over half the funds under this sub-Heading would be devoted over the period to R&D, almost 17% to TENs, 10% to education and some 15% to competitiveness, social policy and administrative expenditure. In addition the Commission intends to create a Growth Adjustment Fund of € 1 billion per year, which aims at increasing appropriations of existing instruments and actions in Heading 1. This Fund will be placed under Heading 1a and may be topped up by unused appropriations from the 2 cohesion instruments (ERDF, ESF) in application of the n+2 rule up to a maximum of a further € 1 billion per year and could be deployed for actions under sub-Headings 1a and 1b.*

Objectives and financial allocations

7. The **five objectives** outlined by the Commission were generally welcomed by delegations, although more information was requested on several aspects. Without prejudice to the position they may take on the specifics of the programmes proposed, and bearing in mind that some of the Commission proposals have yet to be tabled, most delegations furthermore expressed a largely positive evaluation of the goals envisaged within each of the five objectives.

[1] Amounts are in 2004 prices throughout

8. A number of delegations emphasised the importance of providing fair access to the various programmes envisaged in order to ensure a balanced distribution between all Member States of benefits accruing from EU expenditure; it was pointed out in this connection that action under this heading should contribute to narrowing the development gap between Member States and to greater integration in the enlarged Union. Most delegations, for their part, pointed to the importance of the criterion of excellence as regards access to programmes.

9. Regarding the **expenditure levels** proposed by the Commission, several delegations stressed that agreement on the objectives in this field did not necessarily entail approval of the expenditure levels proposed by the Commission. A number of delegations requested more justifications, particularly in the case of new policies or where the Commission is advocating a big increase in expenditure; a careful analysis of the added value of EU expenditure was especially pertinent in this area. In this context the Commission submitted a fiche describing, for the policy areas falling under this Heading, the achievements to date, a justification for expenditure and the objectives aimed at.

10. Without questioning the importance of the Lisbon objectives, several delegations argued that the objectives for Heading 1a should be pursued primarily through other means, such as regulation, coordination and structural reforms, in particular at the national level; accordingly, spending under this sub-Heading needs to be reduced from the levels proposed by the Commission. In this connection a number of delegations recalled that the level of expenditure under this Heading needed in any case to be consistent with their general position that the overall ceiling should not exceed 1% of the Union's GNI (1,1% as far as one other delegation was concerned), equivalent to € 815 billion in commitment appropriations over the period. Some delegations drew the conclusion that the baseline should be the level of expenditure in 2006.

11. A number of delegations believed that the general **breakdown of expenditure between the five objectives** went in the right direction; others called for a stronger emphasis on specific areas.

Growth adjustment fund

12. While a few delegations were open to study the Commission's proposal for a **Growth adjustment fund**, most were either opposed or remained clearly unconvinced. It was argued that existing flexibility mechanisms had worked reasonably well and that therefore there was no need for the Growth adjustment fund, also considering that such flexibility would not contribute to furthering the Lisbon objectives. Several delegations also felt that establishing such a Fund would run contrary to the principle of budgetary discipline and to budgetary transparency. Finally several delegations requested further information on how such a mechanism would operate in practice.

13. Almost all delegations also expressed opposition to the proposal to **redeploy to sub-Heading 1a unused appropriations from sub-Heading 1b** (pursuant to the n+2 rule), either because they believed that such funds should be decommitted, or because they could not support the transfer of funds from the cohesion sub-Heading to another sub-Heading. A few delegations were however prepared to consider the possibility of such redeployments *within* the same sub-Heading. In this context some support was expressed for a performance reserve.

COMPETITIVENESS AND INNOVATION IN THE SINGLE MARKET

14. *The Commission plans to table a Framework program for innovation and competitiveness to unlock and facilitate action in certain targeted areas. This framework will embrace 3 key themes: (1) improving the business environment (access to investment capital, secure electronic networks, effective delivery of EU-wide business services and modernised services through the use of information and communication technology); (2) ensuring innovation works to promote competitiveness and that it is carried through into practical application at a business level; (3) backing up European policy on enterprise competitiveness, innovation, entrepreneurship and SMEs with policy expertise and the promotion of EU action.*

15. There was a broad agreement with the **key themes** proposed in relation to the general objective of enhancing competitiveness and innovation, although delegations could not take a more definitive position pending the presentation of the proposal for the Framework programme. A number of delegations emphasised the importance of the improvement of the business environment, particularly for SMEs (although one delegation questioned the value-added of support for SMEs at the EU level), as well as access to capital and facilitating cross-border trade in services.

16. Several delegations could agree with the **levels of expenditure** envisaged by the Commission in this field; others believed that they were too high and some considered there should be no increase on 2006 levels.

STRENGTHENING RESEARCH AND TECHNOLOGICAL DEVELOPMENT

17. *The Commission plans to devote more than half the funds of this sub-Heading to R&D. The 7th framework program for research, to be presented at the beginning of 2005, will be targeted at the following goals: trans-national cooperation; launching European technological initiatives; stimulating creativity in basic research; making Europe more attractive for researchers; developing research infrastructure for common European interest; reinforcing the coordination of national programs. Work would be targeted on key European interests with a new focus on space and security.*

18. The great majority of delegations agreed that priority should be given to research and technological development, given in particular that there was clearly potential added-value in EU expenditure in this sector. Whilst recalling that in the absence of the proposal for the new Framework Programme they could not pronounce on the details or on the expenditure levels envisaged, several delegations emphasised what they saw as **priorities** in this area (e.g. some – but not all – called for funding to be focussed on SMEs, basic research, trans-national cooperation, the development of R&D infrastructure, enhancing the attraction of the career of scientist, etc.). The majority of delegations emphasised the importance of excellence. Furthermore, a number of delegations laid equal emphasis on the need, particularly in this policy area, to ensure effective access to projects between Member States in the interests of reducing the technological gap, improving competitiveness throughout the Union, promoting integration and developing new centres of excellence alongside existing ones.

19. A number of delegations agreed with the increase in expenditure as proposed by the Commission. Other delegations believed that the increase in expenditure proposed by the Commission was (far) too high; one delegation advocated a doubling of expenditure in comparison to present levels.

PROMOTING SUSTAINABLE TRANSPORT, ENERGY AND EU NETWORKS

20. *A Regulation (doc. 11740/04) will govern the multi-annual financing of trans-European transport and energy networks identified by the Council and the European Parliament over the period 2007-2013. According to the Commission, streamlined decision-making at EU level, clearer rules on conditionality and selectivity, and a clearer project management to improve the chain from conception to completion are introduced within a financial framework of € 20,3 billion over the period 2007-2013. A separate instrument (doc. 11816/04) will build on the existing Marco Polo program on intermodality, supporting smaller scale projects to help private sector actions with the goal of taking freight off the roads, and is provided with an overall budgetary envelope of € 740 million. The proposed Regulation for the Galileo programme (doc. 11834/04) defines the modalities of the deployment and commercial operating phases of Galileo; the financial amount foreseen is around € 1 billion over the period 2007-2013. The Commission also plans to create a specific budget line under Heading 1a for the decommissioning of nuclear power plants. The Commission envisages that spending on these objectives increases with 309% (compared to spending in 2006) to reach € 4.8 billion in 2013.*

21. Many delegations agreed on the importance of promoting sustainable transport, energy and networks and could support a significant increase in **expenditure**. A number of delegations however took the view that the increase envisaged by the Commission was too high. Some of these stressed in this context that transport was first and foremost a national (or regional) competence. A few delegations proposed that expenditure in this field should be kept at present levels.

22. As concerns the **breakdown of allocations** within this policy objective, a few delegations called for a stronger focus on the energy sector; conversely, it was argued that energy projects should essentially be privately funded. Some believed that a higher share of this sub-Heading should be devoted to the TENs. Some emphasised the importance of the Marco Polo programme, or of completing cross-border links. Several delegations supported the Commission's proposals regarding Galileo although one delegation felt that more private investment could be attracted in this field.

23. Support was given by some delegations to the **co-financing rates** proposed by the Commission, although others called for maintaining these rates at their present level, whilst others argued for higher rates, or for setting the same rates for energy and transport projects. It was also suggested that it should be possible for TENs projects to receive combined funding both from the specific means provided to this effect and from the Structural Funds and Cohesion Fund.

24. Some delegations stressed that the specific budget line envisaged for the **decommissioning of nuclear facilities** should not be limited to TEN projects but should also include other relevant measures, in line with the Accession Treaty (e.g. support to power plant personnel, environmental upgrading etc.).

<u>IMPROVING THE QUALITY OF EDUCATION AND TRAINING</u>

25. *The Commission has presented a lifelong learning program which brings together actions at every level of education incorporating the current programs. Heavy emphasis is put on mobility grants, backed by two horizontal actions, covering policy development, language training and the use of new technologies; and Jean Monnet actions for European integration. The proposed indicative financial amount is set at € 13.6 billion for the 7 years of the program. The minimum allocation is set as follows: COMENIUS 10%, ERASMUS 40%, LEONARDO DA VINCI 25% and GRUNDTVIG 3%. The Commission envisages that spending on these objectives should increase by 323% (compared to spending in 2006) to reach € 2.8 billion in 2013.*

26. Some delegations agreed on the need to enhance the Union's efforts in the field of education and training and therefore considered the **expenditure** levels proposed by the Commission appropriate, or took the view that they constituted a minimum. Others however felt that the Commission's proposal was too high, arguing for instance that education and training were essentially a national or regional competence.

27. As to the **breakdown of financial allocations**, one delegation believed that the share foreseen for individual mobility was too high; some others called for an increase for Leonardo and Erasmus.

A SOCIAL POLICY AGENDA TO HELP EUROPEAN SOCIETY TO ANTICIPATE AND MANAGE CHANGE

28. *The Commission proposes to structure the employment and social policy activities in two main areas. The first should take the form of a single program for employment and social solidarity (PROGRESS, doc. 11949/04 + ADD 1) to cover Community actions in the areas of full employment, social protection and inclusion; working conditions; anti-discrimination and diversity; and gender equality. PROGRESS finances through service contracts following calls for tender or EU co-financing of up to 80% of the total expenditure. The financial framework for this program for the period of 2007-2013 will be € 628.8 million with the following breakdown between the different sections: employment 21%, social protection and inclusion 28%, working conditions 8%, anti-discrimination and diversity 23%, gender equality 8%. The second one, entitled "Sustaining Social Dialogue, free movement of workers and studies and special reports in the social field", will deal with financial support to promote and facilitate social dialogue at EU level. This budget line will amount to € 479.9 million over the FP period. A further € 266.4 million is foreseen for the financing of two agencies active in the employment and social area from 2007 to 2013.*

29. Differing views were expressed as concerns the **expenditure** foreseen for the Social policy agenda, with some delegations agreeing with the Commission proposals, or even seeking a higher level of funding, and others calling for a lower level of funding, given that this area mainly falls within the competence of Member States. A few delegations proposed that expenditure in this field should be kept at present levels.

30. The need to ensure **complementarity with ESF** actions under sub-Heading 1b was underlined.

31. As to the **breakdown of financial allocations**, some delegations felt that more funding should be allocated to the Progress line (e.g. transfer € 100 million from the "social dialogue" line to Progress), whilst another conversely called for an increase in the allocation to "social dialogue". Within Progress, a stronger emphasis on employment was called for by several delegations and one delegation felt that the share of resources foreseen for working conditions was too low.

32. The maximum **rate of co-financing** proposed by the Commission (80%) was supported by some delegations, whilst others stated a preference for a lower level (e.g. 75% or 50%), or for a differentiation of co-financing rates according to the objectives aimed for.

<u>HEADING 1b</u>

<u>COHESION FOR GROWTH AND EMPLOYMENT</u>

<u>GENERAL CONSIDERATIONS</u>

33. *The Commission argues that the enlargement of the Union to 25/27 Member States presents an unprecedented challenge for the competitiveness and internal cohesion of the Union. The Commission proposes that actions supported by cohesion policy should focus on investment in a limited number of Community priorities (reflecting the Lisbon and Gothenburg agendas) organised around three objectives: convergence (78%), regional competitiveness and employment (18%), and territorial cooperation (4%). It is envisaged that spending within this heading should increase by 33% (when compared to spending in 2006) to reach € 50,1 billion in 2013.*

34. *The Commission proposes to maintain the 4% cap of national GDP. There is no reallocation of the money resulting from the capping of resources.*

<u>THE BASIC APPROACH</u>

The three objectives

35. There was broad support for the **three objectives** proposed by the Commission as the right instruments for achieving the objectives of the reformed Cohesion policy. The great majority of delegations agreed that efforts should be directed to the objective of reducing disparities in development levels, with particular attention to the least developed areas. The majority were of the view that efforts should be concentrated on the less prosperous <u>regions</u> of the EU, some recalled that the Treaty refers to the objective of reducing disparities between regions. A number of delegations, independently of their position on the overall level of expenditure (cf. *infra*), indicated that the focus should rather be on the less prosperous <u>Member States</u>. The extent to which the areas of the EU-15 Member States should benefit was also questioned.

36. The following specific points were raised on the proposed percentage allocation of funds between the three objectives:

- many delegations agreed with the Commission that priority should be given to the **convergence objective**, with some indicating that this objective could receive a higher allocation of funds;

- as regards the **regional competitiveness and employment objective**, whereas a number of delegations supported the Commission proposals, some called for a substantial decrease in the funds for this objective or the elimination of the objective altogether;

- in accordance with the wide acceptance of the **territorial cooperation objective**, a majority of delegations agreed with the 14% increase proposed by the Commission. Others called for a further increase of resources, some indicated that the level should be lower to that proposed or maintained at the current level of funding for INTERREG.

The overall level of expenditure

37. As far as the **overall level** of envisaged expenditure was concerned (in the Commission proposal, 338 billion euros, equivalent to 0,41% EU GNI), delegations adopted divergent positions: a number considered this level to be the correct one, a few delegations saw it as a minimum and felt that an increase would be justified. A third group called for an increase in expenditure lower than proposed by the Commission or a budget at current levels. A number of delegations recalled their position on the overall level of EU expenditure over the next Financial Perspectives period (1% of EU GNI, 815 billion euros in commitments) and accordingly called for a ceiling substantially lower than current levels.

The capping of resources

38. A large majority of delegations agreed with the Commission that the 4% capping rule should be maintained, since it was necessary to pay due heed to the capacity of a Member State to effectively utilise the resources available as well as to the pressure on national resources arising out of the application of the principle of additionality. Others, however, underlined that the application of this rule and/or the methodology for calculating the cap could lead to difficulties and serious inequities, in particular through its effect on per capita aid intensity in their eligible regions compared to per capita aid intensities in non-affected Objective 1 regions. Some considered that the 4% cap was linked to the wider issue of the Berlin allocation method, and that if it were to result in reduced financial support for some new Member States, it could undermine the method itself. Accordingly:

   - some called for a more flexible approach in applying the cap: as an example, the issue of absorption capacity could usefully be looked at in more detail with a view to a solution which would take into account the financial needs and absorption capacities of each Member State; some delegations furthermore expressed doubts whether the macroeconomic assumptions and methodology employed by the Commission to establish the GDP base were appropriate;

   - several delegations also called for a restriction on the application of the cap to 1b Heading funds only (thus excluding the contribution of the ERDF to the financing of the cross-border strand of the European Neighbourhood and Partnership Instrument and of the Instrument for Pre-Accession, and the part of the European Agricultural Fund for Rural Development originating from the EAGGF guidance section, and of the European Fund for Fisheries contributing to the convergence objective).

   A few delegations suggested that the effect of applying the cap could be in part mitigated by higher EU co-financing rates in the countries covered by the Cohesion Fund and a more flexible application of the *n+2* rule.

39. One delegation considered that the 4% should not be regarded as an upper limit but as an objective to be met; accordingly, cohesion support should amount to at least 4% of GDP for the new Member States.

Transitional Regime

40. There was broad support for the Commission's proposed transitional arrangements for those regions which will no longer be eligible under the new convergence criteria either because of the statistical decrease of the average EU 25 per capita GDP or as a result of increased prosperity levels, this support being however without prejudice to delegations' positions on the precise levels and methodology of financing. Some delegations on the other hand were of the opinion that no transitional arrangements were warranted.

CONVERGENCE OBJECTIVE

41. *This objective concerns, first and foremost, those regions whose per capita GDP is less than 75% of the EU average and Member States whose GNI is less than 90% the EU average. The Commission proposes that temporary support should also apply under this priority to those regions where per capita GDP would have been below 75% of the EU average as calculated for the EU 15 (the so-called "statistical effect of enlargement"). The Commission envisages that spending should increase by 40% (when compared to spending in 2006) to reach € 40,1 billion in 2013.*

42. *The Commission proposes a distribution of resources between the different components within the Convergence objective as follows:*
    - *67.34% for regions whose GDP is less than 75% of the Community average*
    - *8.38% for statistical phasing out regions*
    - *23.86% for the Cohesion Fund*
    - *0.42% for outermost regions to compensate for specific constraints.*

The allocation method for the Convergence objective

43. *The criteria used to determine the indicative breakdown of commitment appropriations for each Member State are those referred to in Article 7 of Regulation 1260/1999, i.e.: population of the eligible regions, regional prosperity, national prosperity, and unemployment of the eligible regions. The Commission proposes to maintain the method with some adjustments to the national prosperity criterion to take into account the "statistical effect".*

44. Many delegations agreed that the **Berlin allocation method** continued to serve as a good basis for determining the breakdown of commitment appropriations. Some however, whilst not calling into question the principles of the method itself, nevertheless considered that the balance between the different criteria within the overall method should be reviewed. One delegation recalled that its approach – i.e. cohesion policy focussed on the less prosperous Member States (< 90% of average EU GNI) – rendered this method nugatory. Consequently:

- some delegations called for further consideration to be given specifically to the **mix of national and regional criteria** within the Berlin method, with suggestions made for opposing approaches; thus, a few proposed that less or no weight should be given to national prosperity, whereas another suggested that the regional prosperity element should be given less importance;

- some delegations proposed, variously, to give the unemployment rate criterion more weight within the Berlin method or to replace it with the criterion of the employment rate. One delegation requested that the **outermost regions** should be treated as convergence regions; another called for the treatment foreseen for the outlying islands in the Aegean to be extended to certain Mediterranean islands; others called for the extremely sparsely populated northern areas of the Union to be dealt with under the convergence objective and on an equal basis with the outermost regions;

- on the issue of whether to use **EU 25 or EU 27** as the basis for calculating average EU GDP for eligibility and allocation, most delegations indicated that the basis should be that of the existing EU (e.g. 25), although others considered that if the decision on the forthcoming enlargement was taken before the adoption of the Financial Perspectives package, the average should be calculated on the basis of EU 27;

- in relation to the application of the Berlin method, many delegations from the new Member States expressed concern about the current difference in per capita **aid intensity** for their eligible regions compared with the EU 15 beneficiary regions and asked that the future arrangements should be such that the level of assistance per capita should be proportional to the level of development of the eligible regions. This would require, first and foremost, a solution to be found for the problems caused by the continued existence of the 4% cap rule as proposed by the Commission. According to several delegations a solution to the disparities in per capita aid intensity should be found by a revision of the Berlin method and/or greater flexibility in the application of the 4% cap. Some other delegations agreed that the per capita aid intensity/4% cap issue needed to be looked at, while yet others considered that the Berlin method and the 4% cap were fully consistent with the aims of cohesion policy.

45. On the **Cohesion Fund** delegations expressed differences of view about the appropriate level of funding with some seeking an increase compared with the levels suggested by the Commission and others seeking a reduction. One delegation called into question the inclusion of the Cohesion Fund in the convergence objective.

Statistical phasing-out

46. *As a result of enlargement, the average GDP per capita in the EU will decrease by 12,5%. Because of this some regions will lose their eligibility for the new convergence objective for the period 2007-2013. This will be due solely to the statistical decrease of average EU-25 GDP per capita, rather than because their material circumstances have improved. These regions are in a different position to those which will lose their eligibility because of natural growth, and therefore the Commission feels that they deserve a special and more generous "phasing-out" arrangement under the Convergence objective. This support will end in 2013 and there will not automatically be a new phasing-out period.*

47. *The main features of the proposed arrangement are:*
   - *a cap of 85% of the aid level of 2006, except for those regions that are not fully eligible for Objective 1 on 1 January 2000 pursuant to Regulation (EC) 1260/99, for which the appropriation in 2007 will be objective and fair,*
   - *a degressivity of 85% in 2007 and 2008, 80% in 2009, 75% in 2010, 70% in 2011, 65% in 2012 and 60% in 2013,*
   - *an overall average aid of 66% of the amount they would have received as full convergence regions,*
   - *a 75% co-financing rate as under the Berlin phasing-out arrangements.*

48. A group of delegations considered the Commission proposals for the "phasing-out" regions to be justified and adequate. A number of delegations called for more support for these regions, and one of them also requested **extending the proposed statistical effect arrangement to the Cohesion Fund**, pointing out that the financial consequences of enlargement in the area of convergence had to be assumed gradually and equitably as between Member States.

49. Other delegations, while accepting the phasing-out principle, were in favour of **shorter and more rigorous arrangements**. Yet others, in line with their focus on the less prosperous Member States, opposed any support to these regions.

50. Finally, some of the new Member States expressed their concern about the current **aid intensity** for their eligible regions in comparison with the EU 15 beneficiary regions and called for the future arrangements to ensure equal treatment for all as regards the "phasing-out" arrangements.

REGIONAL COMPETITIVENESS AND EMPLOYMENT OBJECTIVE

51. *The Commission argues that there are important cohesion challenges that concern all EU Member States, such as rapid economic and social change and restructuring, trade globalisation, a move towards a knowledge-based economy and society, an ageing population, growing immigration, labour shortages in key sectors and social inclusion problems. The Commission proposes a two-fold approach by (1) strengthening the regions' competitiveness and attractiveness (ERDF) and (2) by supporting policies aiming at full employment, quality and productivity at work, and social inclusion (ESF).*

52. *The Commission envisages that spending should increase by 6% (when compared to spending in 2006) to reach € 7,4 billion in 2013 and proposes the following distribution of resources between the different components of this objective:*
    - *83.44% for those Member States that are not covered by the first two components of the Convergence objective(< 75% EU GDP and statistical phasing out regions)*
    - *16.56% for the "phasing-in" regions.*

The allocation method

53. In general the same opinions were expressed as for the Convergence objective, i.e. the method as set out by the Commission was considered an adequate basis, subject to possible adjustments. However, a few delegations disagreed with some of the criteria used (e.g. population density) or advocated adding new criteria such as national prosperity. It was noted that positions were still subject to further examination of the more detailed information on the allocation method made available by the Commission.

Phasing-in arrangements

54. *The Commission proposes that those regions that will lose their eligibility for the new Convergence objective because of the growth of their economies should be accorded the same treatment as that agreed at Berlin in 1999 for regions in the same situation at that time. It considers that those regions should therefore be assimilated into the Regional competitiveness and employment objective. It also considers that smooth and gradual transitional support for these regions is needed, although the arrangements proposed are more demanding and rigorous than those currently applying.*

55. *The main features of the proposed arrangement for the "phasing-in" regions are:*
   - *a cap of 75% of the aid level of 2006 (80% for the sparsely populated regions), a linear reduction between 2008 and 2010 and an average aid intensity of € 21 per habitant for the period 2011–2013*
   - *an overall average aid of 35% of the amount they would have received as full convergence regions*
   - *a more limited eligibility of actions than under Objective 2 during the current period, and a 50% co-financing rate as compared to the current 75%.*

56. Most delegations accepted the principle of the "phasing-in" arrangement. Opinions however differed as to the amounts foreseen, with some finding the proposed allocation acceptable, and two delegations calling for increased support, and others proposing more restrictive and less generous arrangements. A number of delegations considered that these regions should not receive any EU funding.

European territorial cooperation

57. *Building on the experience of the present INTERREG Initiative, the Commission proposes to create a new objective dedicated to further the harmonious and balanced integration of the territory of the Union by supporting co-operation between its different components on issues of Community importance at cross-border, transnational and interregional level.*

58. *All regions along the internal terrestrial and certain regions along the external terrestrial borders as well as along certain neighbouring maritime borders will be eligible for cross-border cooperation. The aim will be to promote joint solutions to common problems between neighbouring authorities, such as urban, rural and coastal development and development of economic relations and networking of SMEs. The Commission envisages that spending should increase by 14% (when compared to spending in 2006) to reach € 2,2 billion in 2013.*

Views on the Territorial Cooperation Objective

59. Delegations generally welcomed this objective, as it provided EU added-value especially in the context of an enlarged Europe with more internal and longer external borders. Notwithstanding, the following positions were expressed:

- many delegations suggested that priority should be given to the cross-border cooperation strand of the new objective; in this connection, some indicated that the new external borders should be a priority, notably in connection with the implementation of the Schengen provisions;

- one delegation considered that this new objective should cover only cross-border cooperation, with this being limited to the new internal borders and the external borders of the EU;

- several delegations were critical of the 150-km limit for maritime cross-border cooperation, despite some degree of flexibility on the Commission proposal;

- one delegation asked for interregional cooperation actions to be included under this objective and not under Objectives 1 and 2 as proposed by the Commission;

- one delegation suggested enlarging the range of criteria envisaged for the allocation of resources to include not only eligible population but also regional and national prosperity and unemployment.

HEADING 2

PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES

GENERAL OBSERVATIONS

60. *The Commission proposes that expenditure under heading 2 increase by 3% by comparison with 2006, reaching Euro 57.8 billion in 2013. It envisages that the allocation between the policy areas is 75% for market-related expenditure and direct payments, 20% for rural development, 2% for fisheries, 1% for environment and 2% for administrative costs.*

Overall level and allocations

61. Several delegations recalled that an agreement on the ceilings for market-related expenditure and direct payments had been reached at the European Council in October 2002 and underlined the importance of that agreement being respected. Some underlined that nevertheless the ceilings for market-related expenditure and direct payments would have to be considered in the context of the final overall package. Several delegations considered that the proposed allocation was acceptable.

62. A number of delegations recalled their basic position that overall EU expenditure over the period covered by the next Financial Perspectives should not exceed an annual average of 1% of EU GNI (815 billion euros in commitments), and that overall spending in the area of preservation and management of natural resources would need to be reduced in order to contribute to the realisation of this objective. For some delegations, savings would need to be made in areas other than market-related expenditure and direct payments, whereas others considered that some reductions might also be possible in the area of market-related expenditure and direct payments (*see below*).

63. Several delegations underlined the importance of adequate resources for rural development and suggested that the sums proposed by the Commission in this area should be increased.

MARKET RELATED EXPENDITURE AND DIRECT PAYMENTS

64. *The Commission has proposed that expenditure on this objective will decrease by 3% by comparison with 2006 to reach Euro 42,3 billion in 2013. The figures were obtained by applying a 2% deflator to the ceilings in current prices agreed at the October 2002 European Council in order to express them in 2004 prices. Moreover, the Commission has included estimates for the phasing-in of market measures and direct payments for Bulgaria and Romania. The Commission has proposed that these figures constitute a ceiling rather than a sub-heading.*

65. As far as specific **market-related and direct payments expenditure** is concerned, most delegations expressed broad support for the Commission's proposal, which had to respect the ceiling on expenditure in this area fixed in the October 2002 agreement. Some recalled that the expenditure level would depend on the overall balance of the final financial package. Most delegations also considered it premature to take a view on whether the implementation of WTO principles on phasing out of export refunds would have consequences for this ceiling, although some considered that this could lead to possible savings which could allow the ceiling to be lowered. Many delegations agreed with the Commission proposal that **Bulgaria and Romania** should be added to the ceiling on the grounds that the 2002 agreement was based on EU 25. Others however took the view that they should be accommodated under the Brussels ceiling.

66. Delegations were split over whether the proposed figures for expenditure in this area should constitute **a ceiling or a sub-heading**. Some specifically agreed with the Commission that a ceiling was important inter alia in order to provide for the flexibility required because of modulation. Others, however, took the opposite view and saw no need for more flexibility; some called for this expenditure to be strictly ring-fenced.

RURAL DEVELOPMENT

67. *The new instrument proposed by the Commission would cover interventions under Heading 1b of the current financial perspective plus expenditure for Bulgaria and Romania, in addition to a transfer of the interventions of the EAGGF-Guidance for objective 1 regions. Overall expenditure under this heading is envisaged to increase by 23% compared with 2006 to reach Euro 13 billion in 2013. The Commission has proposed that rural development policy focus on three objectives: competitiveness, wider rural development and environment. Each programme would contain a LEADER axis to finance the implementation of the local development strategies of local action groups built on the three thematic objectives. To ensure programme balance the Commission proposes minimum funding rates of 15% for objective 1 (competitiveness) and 3 (wider rural development), 25% for objective 2 (environment) and 7% (LEADER). The suggested co-financing rates are a minimum of 20% and a maximum of 50% for objectives 1 and 3, and a maximum of 55% for objective 2 and LEADER.*

68. Most delegations were broadly positive about the Commission's proposals in the area of rural development, including the simplification they implied, and supported the proposed increase in expenditure in this area. Some wished to see a further increase. Others, on the other hand, considered that the final figure would have to take account of their overall 1% GNI objective (815 billion euros in commitments). For some this implied a decrease in expenditure below the 2006 level.

69. On the issue of **allocation between Member States**, several delegations underlined the need to give preference to the less prosperous Member States, stressing the importance of taking into account a Member States' overall level of development. Others, on the other hand, considered that rural development should not be seen essentially as convergence or cohesion policy. This meant a fair distribution between Member States and that it needed to take more account of specific regional requirements (examples such as natural handicaps, distances from markets and sparse population levels were given as examples) than of overall national prosperity. Most supported the inclusion of current EAGGF-Guidance funds for the purposes of applying the **4% cap**; some were opposed. Delegations were split over whether to take EU 25 or EU 27 as a basis for eligibility and allocation.

70. On **minimum funding rates** per objective, some delegations agreed with the Commission's proposal, but several considered that it was too rigid; application of the principle of subsidiarity meant that Member States should be allowed greater flexibility. Subject to this general consideration, various delegations considered that the one or the other minimum funding rate should be reduced. One delegation requested that the minimum rate for objective 1 (Competitiveness) be increased.

71. On the proposed **co-financing rates**, some delegations agreed with the Commission's proposal, although a few considered that the same rate should apply to the three objectives. The suggestion was made that the rate for objective 2 should be increased, and that for those countries covered by the Cohesion Fund, the same co-financing rates should be used as for the outermost regions. Some, on the other hand, proposed that there should be no change to the current system.

<u>FISHERIES</u>

72. *Overall expenditure under this heading is envisaged to increase by 24% compared with 2006 to reach Euro 1.1 billion in 2013. It is proposed that it focus on the sustainable development of coastal areas, the adaptation of the fishing fleet, environmental-friendly and competitive aquaculture and fisheries processing and technical assistance and other actions of common interest. It is intended to use the method agreed at the 1999 Berlin European Council as the basis for the distribution of resources between the Member States.*

73. A large majority of delegations broadly supported the Commission's proposed **objectives** on fisheries and its intention to simplify financial support mechanisms in this office. Many also supported the proposed **increase in funding**, subject to the shape of the overall final package, while others suggested that the funding should be maintained at current levels or even reduced. On **allocation between Member States**, a few delegations supported the proposal to use the Berlin method, but one considered that the method would need to be revised. A number of others did not have a clear position yet on this issue, and some said that they would require further information before they could respond on this. Some delegations stressed that they did not want to see expenditure in this area included within the 4% cap rule.

ENVIRONMENT

74. *Overall expenditure under this heading is envisaged to increase by 67% compared with 2006 to reach Euro 0.4 billion in 2013. The Commission has proposed that environment policy be regrouped under one new instrument (LIFE+) which will support the deepening of the knowledge base in environment policy, the implementation of environment policy on the ground, demonstration of new policy approaches and instruments and actions to raise awareness on environmental issues. LIFE + would be complemented by Natura 2000 which is to be financed out of structural funds and rural development funds.*

75. Many delegations supported the Commission's proposal to group all the environment budget lines within a **single instrument**, although a number said that they could not take a definitive view on this pending more in-depth examination of the legislative proposal. One delegation was opposed to the principle of a single instrument. One delegation asked for support for environmental technologies to fall under this heading rather than under Heading 1 a) (Framework Programme for Competitiveness and Innovation).

76. Many delegations also expressed support for the proposed increase in **funding** for this policy area and another felt there might be a case for a further increase, while others suggested that the increase in funding should be lower or that expenditure should be maintained at current levels. Some also wanted to have further information on the funding of NATURA 2000 before taking a final position on the overall levels of expenditure. As far as NATURA 2000 in particular was concerned, several delegations expressed misgivings at the approach suggested by the Commission of mainstreaming NATURA 2000 actions in other Funds and felt that an ad hoc instrument might be necessary to ensure that activities under NATURA 2000 would continue to receive adequate support.

HEADING 3

CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE

77. *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. According to the Commission, assembling the policies in question under one Heading will give political and financial visibility to the Union's determination to address matters of immediate interest to Europeans as individuals and citizens. Also included in this category is a solidarity and rapid reaction instrument, which will provide citizens with a European response in the event of major disasters.*

78. *The Commission envisages that spending on this Heading should more than double (when compared to spending in 2006) to reach € 4.455 million (2004 prices) in 2013 , including the Solidarity Fund that the Commission proposes to redefine as the Solidarity and rapid reaction instrument. The amount of the Solidarity instrument remains unchanged at 1 billion euro at current prices. Expenditure excluding the Solidarity instrument increases by around 160% in 2013 (compared to 2006). By the end of the period around:*
    - *two thirds of total operational expenditure under the Heading, excluding the solidarity instrument, will be devoted to freedom, security and justice;*
    - *the remaining third will be channelled to ensuring that Europeans have access to public goods and actions for fostering European culture and citizenship.*

Objectives and structure

79. Most delegations could broadly subscribe to the **objectives** proposed by the Commission in this field, although a number equally stressed that pending the presentation of several outstanding legislative proposals they could take neither a final nor a detailed position.

80. Most delegations also generally agreed with the **overall structure and contents** proposed for this Heading and several welcomed the enhanced visibility that was thus given to areas of particular importance to citizens. Some, however, remained unconvinced that "citizenship" constituted a sufficiently coherent concept to cover the disparate range of actions proposed under this Heading. In particular, one delegation took the view that it could be further rationalised, for instance by integrating the smaller programmes into larger ones. Another delegation expressed concern over the lack of clarity in the delimitation between this Heading and other ones (particularly Headings 1a and 2) and proposed that the scope of Heading 3 be restricted to Freedom, Security and Justice or to "Internal Security".

81. All delegations identified the area of **Freedom, Security and Justice** as the main priority, with some stressing the particular importance of the management of the Union's common borders. Delegations however expressed divergent views on whether expenditure in this area should form a **sub-Heading** within Heading 3: for some delegations this would guarantee that an appropriate level of funding is reserved for this highly important field and was justified by its very different nature compared with the remaining policies under Heading 3; for others it run counter to the objective of increased flexibility sought through the proposed reduction in the number of Headings.

82. Delegations were also divided on whether or not to include the **EU Solidarity and Rapid Reaction instrument** in the Financial Perspectives, as is proposed by the Commission. Furthermore, a number of delegations took the view that were this instrument to be budgetised, then its appropriations should be ring-fenced. One delegation felt that this Instrument should in any event be attached to Heading 1a rather than Heading 3. Several also requested more information on the changes that the Commission would be proposing in comparison to the current Solidarity Fund, particularly as concerned its "Rapid Reaction" element. A few opposed mobilising such an instrument for disasters other than natural ones.

Funding

83. As regards the **funding** for this Heading, several delegations recalled their general position that expenditure levels should be consistent with an overall budget stabilised at 1% of EU GNI (815 billion euros in commitments).

84. Certain delegations stressed the need to examine the added value of action at EU level in the policy areas falling under this Heading and to consider whether other types of intervention (e.g. regulation or coordination) would be more effective. The need to take into consideration the ability to manage and to absorb funds was also noted. Some delegations recalled that in their view the allocation of expenditure for and between different objectives could only be determined after agreement had been reached on the different instruments. A number of delegations were not able to take a definitive position in the absence of several of the legislative proposals. One delegation requested that the Commission also present the allocation of appropriations by individual programme or instrument.

85. Nonetheless, certain delegations were able to subscribe broadly to the allocation of funding between the different components of this Heading as envisaged by the Commission, although some felt that more emphasis should be put on Freedom, Security and Justice. Some delegations felt that expenditure on Freedom, Security and Justice should be increased, either through an increase in the overall heading, or through increasing its share within the ceiling for Heading 3 proposed by the Commission. Other delegations considered the proposed increases in expenditure levels too high. Some of these advocated a smaller increase, concentrated in the Freedom, Security and Justice part of the heading, while another considered that the 2006 expenditure level should be considered as the baseline.

- **STRENGTHENING THE EU AS AN AREA OF FREEDOM, SECURITY AND JUSTICE**

86. *By the end of the period around two thirds of total operational 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 strategy and integrated border management, and strengthening the prevention of, and the fight against, crime. The Commission's approach for achieving these goals is based on three framework programs to replace the multitude of instruments and budget lines in this field.*

   – *"Freedom" programme supports the principle of solidarity in managing people flows by ensuring a fair share of responsibilities between Member States as concerns the financial burden arising from the introduction of an integrated management of the Union's external borders and from the implementation of common policies on asylum and immigration. According to the Commission, this programme will represent the main part of the funding envisaged for the area of freedom, security and justice with around 70-75% of total appropriations.*
   – *"Security" programme aims to ensure an effective operational cooperation in the fight against terrorism, organised crime and general crime, to support the provision of intelligence on an European scale and to strengthen the prevention of crime and terrorism.*
   – *"Justice" programme envisages to support the development and implementation of judicial cooperation in civil and criminal matters aiming at creating a true area of justice, to provide financial support to accompany the inclusion of the charter of fundamental rights in the Constitution, including promotion of the charter, support for democratic participation and for the fight against violence and the fight against drugs.*

87. *The Commission at this stage has indicatively earmarked operational spending on the STRENGTHENING THE EU AS AN AREA OF FREEDOM, SECURITY AND JUSTICE objective entailing more than a tripling (increase by 260% when compared to spending in 2006) to reach € 1.725 million (2004 prices) in 2013. To such an amounts should then be added the related administrative expenditure and the part of the available margin not yet earmarked.*

Priorities

88. Most delegations could largely support the goals pursued in this component of Heading 3. Attention was drawn to the need to take due account of the Hague Programme which the European Council adopted on 5 November.

89. Several delegations stressed the particular importance of supporting Member States in the integrated management of the Union's **external borders**. Some argued that clearer priority should be ascribed to this area within the Freedom Programme; a few considered that it should be the subject of a separate financial ring-fenced instrument. A few delegations expressed opposition to the establishment of an independent European border control authority and therefore excluded any Community funding to that end. Some delegations emphasised the importance of supporting accession to the **Schengen area**, and argued for the Schengen Facility to be continued and extended.

90. **Other priority areas** mentioned by delegations included cross-border cooperation, by both judicial authorities and bodies concerned with the fight against crime, in particular terrorism, as well as asylum policy, return policy, integration policy, the promotion of fundamental rights, coordination, information analysis, training and evaluation of implementation of existing measures. The importance of effective cooperation with third countries in this area was also mentioned. Conversely, concerns were expressed regarding a centralised European criminal register and judicial cooperation in criminal matters. One delegation called for the existing set of measures related to Kaliningrad to be developed into a single budgetary instrument.

Structure

91. Most delegations agreed with the proposed simplification in this field achieved by replacing the multitude of existing instruments by three framework programmes.

92. One delegation however expressed reservations on such a restructuring, arguing that the three areas of freedom, justice and security were too substantially interlinked to be pursued by three separate programmes; in particular, this delegation criticised the separation such a structure would entail between, on the one hand, the fight against crime, and, on the other hand, judicial cooperation in criminal matters and the promotion of fundamental rights.

Funding

93. Some delegations could agree with the increases envisaged by the Commission in this area, whilst others felt that such increases could be lower. As to the funding of the individual programmes, a number of delegations agreed with the emphasis on Freedom proposed by the Commission (around 70-75% of total appropriations for the Freedom, Security and Justice component of this Heading), as this area was typically one where the EU could bring added value. Others, however, felt that more justification was required for the proposed expenditure under this component, particularly given the respective responsibilities of Member States and the EU in this field. The Commission was requested to provide the envisaged allocation of funding between the Security and Justice Programmes (which in total are to represent 20-25% of the appropriations for this component).

- **PROMOTING A HIGH LEVEL OF PUBLIC HEALTH AND CONSUMER PROTECTION, FOSTERING EUROPEAN CULTURE AND CITIZENSHIP, OTHER ACTIONS, ADMINISTRATION**

94. *In the area of basic goods and services, the Commission proposes to replace all existing instruments by two major instruments (Food Safety program, Consumer Policy and Public Health program) to fit better with the political objectives of citizenship. The Commission counts on the European Food Safety Authority and the European Centre for Disease Prevention and Control to provide the necessary regulatory and executive assistance.*

95. *On the basis of the legislative proposals put forward by the Commission on 14 July 2004, programs in policy area of European culture and citizenship include a new Youth program, a new Culture program, a new program for the audiovisual sector and a new civic participation program. "Culture 2007" integrates in a single financial instrument with a total budget for the period 2007-2013 of € 408 million (current prices, equivalent to € 360 million at 2004 prices) support for cultural actions (approx. 77%), support for European organisations active in the field of culture (approx. 10%) and support for analyses, collection and dissemination of information in the field of cultural cooperation (approx. 5%). "MEDIA 2007" is a single programme intervening in the pre-production (acquisition and improvement of skills, development) and post-production phases (distribution, promotion, pilot projects) of European audiovisual works, endowed with a total of € 1.055 million (current prices, equivalent to € 929 million at 2004 prices) for the period 2007-2013. "Youth in Action" aims to promote European citizenship to young people at European, national and local level. The current 4 budget lines will be replaced by a single one with a total financial envelope for the period 2007-2013 of € 915 million (current prices, equivalent to € 811 million at 2004 prices).*

96. *The Commission envisages that spending on these objectives should increase by 50% (when compared to spending in 2006) to reach € 353 million (2004 prices) in 2013.*

Priorities

97. Support was expressed for the goals outlined by the Commission, although most delegations were not at this stage able to take detailed positions on the Commission's proposals. Some delegations singled out particular areas of priority, such as promoting small projects in the Culture 2007 programme or supporting film distribution in the Media 2007 programme.

Structure

98. The aim of simplification in this field was welcomed, although divergent views were expressed on the proposed merger of consumer policy and public health into one single programme: some delegations pointed to the very different nature of these policy areas, with different levels of involvement of the Union, whilst others agreed that such simplification would help better meet citizens' expectations.

99. Support was expressed for combining all relevant budget lines into a single **Food Safety Programme**, though clarifications were requested on the type of actions which would be covered.

100. A few delegations cautioned against **flexibility** within this Heading being deployed to the detriment of the expenditure foreseen for the policy areas of public health/consumer protection and culture/citizenship and advocated some sort of earmarking, either through the setting of amounts within the regulations establishing the programmes or by setting up sub-Headings corresponding to the broad objectives under this Heading.

Funding

101. A few delegations could broadly endorse the Commission's proposals; others felt the proposed increases were too high or advocated maintaining expenditure at 2006 levels; one delegation called for a higher increase for Culture and Youth. The important leverage effect of EU expenditure in this field was emphasised by one delegation; conversely, others stressed the need to demonstrate its added value.

HEADING 4

THE EU AS GLOBAL PARTNER

102. *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. Driven by the need to facilitate coherence and consistency of external actions, the Commission proposes a simplified structure with three general instruments supporting external policies (pre-accession policy, neighbourhood policy, development policy) and three thematic instruments responding to crisis situations.*

103. *The Commission envisages that spending on this Heading should increase by 40% (when compared to spending in 2006) to reach € 15.740 million (2004 prices, including the EDF) in 2013. Over the period 2007-2013, about 46% (of which 24% for the EDF) of the funds would be allocated to sustainable development, relating mainly to poverty reduction and other Millennium Development Goals, around 30% would be devoted to neighbourhood and pre-accession policy (15% for each policy), around 5% will be devoted to the stability instrument and the remaining 19% include the margin and operational expenditure related to other instruments and interventions, namely humanitarian aid, macro-financial assistance, CFSP, loan guarantee and emergency aid reserves, as well as certain actions in favour of overseas countries and territories. Furthermore the Commission suggests integrating the EDF into this Heading of the Financial Perspectives.*

Instruments

104. A very large number of delegations expressed support for the instruments proposed by the Commission, considering that they will help to enhance the political influence of the EU in the area of external relations. There was also broad support for the Commission's proposal to simplify the existing spectrum of tools into three policy instruments and three thematic instruments. However a small number, whilst supporting the overall goal of simplification, expressed doubts about whether the developing countries and other partner countries benefiting from economic cooperation should be grouped together under a single instrument. One delegation sought further clarification on the link between the external instruments and external aspects of internal policies. Some delegations considered that there should be a clearer indication of the geographical and thematic breakdown within each instrument; several delegations felt that those instruments should be ring-fenced.

Funding

105. Two delegations considered that a position with respect to overall expenditure could only be given in the light of a 'bottom-up' approach. Some delegations expressed support for the increase proposed by the Commission, and several recalled that any increase would be acceptable only in the context of a reduction in the overall ceiling to a maximum of 1% of EU GNI (815 billion euros in commitments); a small number said that they could envisage an increase above the level put forward by the Commission; some delegations wished to see spending on this heading stabilise at the 2006 level.

106. Several delegations disagreed with the proposed allocation, with one considering that greater emphasis should be put on development policy, others preferring to place a higher priority on the neighbourhood instrument, and yet others highlighting the importance of the instrument for stability.

Margins

107. A large number of delegations expressed support for a sufficiently large margin to enable the Union to address unforeseen circumstances. Some considered that there should be a single margin for the overall heading; others preferred margins within the allocation for each instrument. Figures suggested ranged from 2% through 5% to 10%.

European Development Fund

108. Delegations were more or less equally divided over whether the EDF should be integrated into this Heading and budgetised.

Other issues

109. A number of delegations expressed concerns over the proposed comitology provisions in the Commission's legislative proposals under this heading. One also questioned the extent to which the Commission was proposing to delegate spending authority to itself.

- **SUSTAINABLE DEVELOPMENT**

110. *This policy area relates mainly to poverty reduction and other Millennium Development Goals in the ACP region, Asia, Central Asia and Latin America. The main new vehicle to accomplish these goals is the "Development Cooperation and Economic Cooperation" instrument. The instruments coverage will be all countries, territories and regions that will not receive assistance under the pre-accession instrument or the European neighbourhood and partnership instrument. It will cover development and economic cooperation with partner countries and regions in its various forms and modalities as well as global and horizontal initiatives in conformity with articles 179 and 181a of the Treaty. From 2008 on, it will include the successor to the 9th EDF which will come to an end in 2007.*
The proposed financial framework for this instrument for the period of 2007-2013 is € 44.229 million (current prices).

Objectives

111. A large number of delegations expressed their support for the objectives of the **"Development Cooperation and Economic cooperation Instrument"**. Many also referred to the importance of the role of this instrument in fulfilling the Millennium Development Goals with some emphasizing the importance of ensuring appropriate levels of financing for official development assistance (ODA). A small number referred to the need to maintain an appropriate geographical balance between the countries falling under this instrument. One also saw the need for balance between this and the neighbourhood policy instrument.

Funding

112. On the levels of expenditure, some delegations supported the increase put forward by the Commission; others felt that they needed further information before taking a view. One took the view that the case for increasing expenditure levels depended on significant reform of the management and policy focus of the EU budget in the external relations area.

- **PRE-ACCESSION POLICY AND NEIGHBOURHOOD POLICY**

113. *A Pre-Accession Instrument (IPA) will cover candidate countries (Turkey, Croatia) and the potential candidate countries (remaining Western Balkans) and will supersede the existing instruments PHARE, ISPA, SAPARD, CARDS and Turkey pre-accession Regulation, simplifying the management of programs. Potential candidate countries will continue to receive assistance along the lines currently laid down in the CARDS-Regulation whereas candidate countries will additionally receive assistance to fulfil the accession criteria and to prepare for the implementation of Structural and Rural Development Funds after accession, as well as concerning the full implementation of the acquis communautaire. The proposed financial framework for this instrument for the period of 2007-2013 is € 14.653 million (current prices).*

114. *A European Neighbourhood & Partnership Instrument (ENPI) covers all the financial assistance to the countries covered by the European Neighbourhood Policy and Russia. The EPNI aims at promoting progressive economic integration and deeper political cooperation between the EU and partner countries and at addressing the specific opportunities and challenges related to the geographical proximity common to the EU and its neighbours. The proposed financial framework for this instrument for the period of 2007-2013 is € 14.929 million (current prices).*

Instruments

115. Wide support was expressed for the **instruments** for the pre-accession and neighbourhood policy. One delegation underlined the importance of placing these instruments within the context of the Union's overall strategic relations. Others mentioned the need to have set priorities (poverty reduction was mentioned). Several delegations underlined the importance they attached to cross-border cooperation, and some of them considered that this should be ring-fenced, or be taken up in a separate instrument.

Scope

116. Many delegations supported the inclusion of potential candidate countries within the Pre-Accession Instrument, although some said that there would have to be a clear distinction between the two categories of countries to avoid raising expectations. One delegation suggested replacing the name "Pre-accession instrument" with something which better reflected its scope. As far as the ENPI was concerned, a few delegations expressed concern at the potential overlap with the objectives of the Development Cooperation and Economic Cooperation instrument.

Funding

117. On the issue of the level of funding, many delegations supported the Commission proposals, underlining the importance of attributing sufficient resources to this area. Some considered that the proposed allocations were too high, of which a few were open to the possibility of increasing funding for the ENPI while decreasing it for the IPA. Few delegations had a view on the allocation between programmes, although the importance of adequate funding for the Mediterranean countries and Turkey was mentioned. Two delegations underlined the importance of the method used to determine allocations to individual countries; one stressed the importance of basing this on the results of existing cooperation and another emphasised the need for a balance between Eastern Europe and the Mediterranean area. One delegation considered that financing the ENPI from two different Headings was not acceptable, and that it was important that the financing of ENPI be established separately from cohesion funds.

- **EU AS GLOBAL PLAYER**

118. *This policy area is supposed to cover first pillar measures complementary to measures adopted under the CFSP, activities of a more thematic nature (e.g. humanitarian aid, peace-keeping operations, human rights, de-mining, rapid reaction mechanism).*
The new "Instrument for Stability" is designed to provide an adequate response to instability and crises and to longer term challenges with a stability or security aspect. It will be complementary to the Pre-Accession, European Neighbourhood and Partnership and the Development and Economic Cooperation instruments and will provide assistance designed to establish the necessary conditions for the implementation of the policies supported by these instruments. The proposed financial framework for this instrument for the period of 2007-2013 is € 4.455 million (current prices).

119. *The already existing Humanitarian Aid instrument and Macro Financial Assistance will remain unchanged except that all Food Aid of a humanitarian nature will be included under Humanitarian Aid instead of being dealt with under a separate Regulation. Indicative figures from the Commission for Humanitarian Aid and Macro Financial Assistance for the period 2007-2013 are € 6.315 million and € 1.141 million respectively in current prices. Similarly, the indicative figure from the Commission for the CFSP budget for the same period is € 939 million in current prices.*

Instrument

120. Many delegations agreed there was a need for the Union to be able to deal with activities of a more thematic nature and so welcomed the Commission's proposal for an **Instrument for Stability**. Several said that it should take as its basis the European Security Strategy. A number of others expressed concerns, or at least questioned, the link between this instrument and the CFSP budget line. Several underlined the importance of having adequate funds for CFSP. One delegation raised the question of the relationship between long-term development and crisis management, and another underlined the importance of including in this instrument the external aspects of justice and home affairs.

Funding

121. On the overall level of funding, a few expressed doubts about the amounts put forward by the Commission; one suggested that the amount could be increased further. A small number of delegations supported the Commission's proposed allocation between programmes. Most however had no view on this.

- **LOAN GUARANTEE & EMERGENCY AID RESERVES**

122. Many delegations supported the inclusion of both reserves in the new Heading 4. Delegations insisted that these should be ring-fenced. Whilst some delegations also agreed with the proposed amounts for these reserves, others considered it too early to take a definite view.

ADMINISTRATION

123. *Heading 5 consists of the administrative expenditure of other institutions than the Commission, pensions for all institutions and costs related to European schools. The Commission's administrative expenditure is directly linked to operational expenditure under Headings 1-4 following the principles of activity-based budgeting (ABB). According to the Commission an advantage in this approach is that unused appropriations for administrative expenditure might be used for operational activities under the specific heading. As presented in fiche 17 the Commission envisages that spending on its own administration should increase by 40% (compared to spending in 2006) to reach 4,8 billion (2004 prices) in 2013.*

124. T*he Commission envisages that administrative expenditure under Heading 5 (other institutions, pensions and European schools) should increase by 30% (compared to spending in 2006) to reach 4,5 billion (2004 prices) in 2013.*

Approach

125. All delegations agreed on the importance of disposing of a **comprehensive overview** and ensuring adequate **monitoring and control** of administrative expenditure during the next Financial Framework period. Accordingly, a considerable number of delegations put into question the Commission's approach as it stood. In this connection:

- a considerable number of delegations pointed out that there was no antinomy between annual budgets adopted according to an activity-based presentation and a Financial Framework identifying clearly administrative expenditure, and considered that the commonly shared objectives of overview, monitoring and control would be best served by maintaining a separate Heading under which all administrative expenditure of all the Institutions would be grouped. One of these delegations suggested that such a discrete Heading could specify indicative amounts for administrative expenditure in respect of each operational Heading;

– several other delegations expressed support for the Commission's approach or would at least be prepared to consider it, since it enabled a clearer picture to be gained of the true cost of each of the main policy areas. Most of these delegations however asked for administrative expenditure to be identified in a specific sub-Heading under each of Headings 1 to 4 in view inter alia of fears that operational expenditure might be used for administrative purposes, or vice versa. According to some of these delegations, such sub-Headings should be ring-fenced. Other suggestions advanced with similar purpose were to fix a ceiling for administrative expenditure under each Heading or to give an indication elsewhere in the Financial Framework the total amount of Commission administrative expenditure (e.g. in a specific, supplementary ceiling).

Calculations and amounts

126. Whereas a few delegations indicated that they could broadly agree with the **methodology** used by the Commission to calculate estimates of future administrative expenditure, many more asked for fuller information as a pre-requisite to taking a position on either methodology or amounts. In particular more information was required on the assumed effect of both the most recent enlargement, as well as the future accession of Bulgaria and Romania, and on the link established by the Commission between increased operational expenditure and administrative expenditure. Some delegations felt it would be helpful if administrative expenditure projections could be broken down to the level of individual programmes/initiatives. One delegation considered that further examination of this issue would be required on the basis of the projections provided by the Commission for future spending with enlargement and pensions-related expenditure identified separately.

127. As far as the proposed **figures** themselves were concerned, a number of delegations wondered whether the Commission had taken sufficient account of the savings likely to be generated by factors such as: the general objective of simplification running throughout the Commission's legislative proposals; possibilities for streamlining the Institutions' administrative and decision-making procedures; improved effectiveness and productivity; economics of scale; the new Staff Regulations and other aspects of Commission reform. Notwithstanding these questions and pending more detailed information on methodology and assumptions,

– some delegations indicated that administrative expenditure (excluding pensions and possibly 2007 enlargement effects, as far as some were concerned) should remain by and large at its current level;

– others indicated that the growth rate of this category of expenditure should not be higher than that of operational expenditure.

List of Commission Services' fiches to the Ad Hoc Group

Fiche	Subject	Date
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