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COMMUNICATION FROM THE COMMISSION

Information Note
Common Financial Framework 2004-2006 for the Accession Negotiations

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I. Introduction

The negotiation chapters on agriculture and structural policies have important budgetary components and are related to the chapter on financial and budgetary provisions. In order to allow the Council to assess financial issues in a common framework early under the Spanish Presidency, the Commission, in this information note, sets out the global approach it intends to take in the draft common positions in the fields of agriculture, structural actions and the budget. All these chapters have been scheduled under the road map for the Spanish Presidency with the objective to define common positions in view to closing provisionally these chapters.

Because of the complex nature of the underlying calculations for agriculture, more detailed calculations are covered in a specific section of the accompanying agricultural issues paper. For structural policy the Commission has already presented to the Council a horizontal paper, excluding the overall financial envelope.

On the basis of the orientations contained in this note, the Commission will finalise the corresponding draft common positions. As indicated in the Commission's Strategy Paper 2001, the budgetary implications of these proposals will be in line with the expenditure ceilings agreed in Berlin for the period until 2006. To this end, the present information note illustrates that the financial framework, corresponding to a scenario with ten new Member States in 2004, respects the ceilings agreed in Berlin.

II. The Berlin framework

The overall Berlin framework envisaged annual amounts for 2002 to 2006 increasing from € 6,450 million (in commitment appropriations) to € 16,780 million on the basis of a scenario for an enlargement in 2002 with six new Member States.

Since enlargement will not take place until 2004 and could include up to ten new Member States, the Berlin scenario has to be adjusted.

The amounts in principle foreseen for enlargement in 2002 and 2003 are not available since they cannot be transferred to later years in view of the annuality of the financial perspective ceilings. In conformity with article 25 of the Interinstitutional Agreement, the Commission's starting point is , without prejudice to the outcome of the negotiations, to formulate proposals that are in accordance with the expenditure ceilings agreed in Berlin for each of the years 2004 to 2006 and to incorporate the necessary adjustments for the potential number of new Member States. It is assumed that ten new Member States could join the Union in 2004.

These adjustments can differ depending on the policy concerned. For instance, for market-related expenditure under the CAP, the calculations are necessarily based on updated forecasts for the agricultural situation relevant for each of the years 2004 to 2006.

For other categories of expenditure, the necessary resources to finance ten instead of six new Member States can, in a number of cases, be found by not taking as a point of departure the amounts available for 2004 to 2006, but rather amounts closer to the levels originally foreseen for the first three years of accession. This applies in particular to cases where in view of limited absorption capacity in the first years of accession a phasing-in was scheduled, such as for the structural funds.

By saving resources in this way, it is possible to finance, under the Berlin ceilings, an enlargement of up to ten instead of six new Member States while catering for specific issues that have appeared in the accession process. In this information note, the following issues are addressed:

- *Agricultural policy*. Without prejudging any changes in the nature of the regime for direct payments, transitional arrangements are proposed consisting of two steps. During the 2004-2006 period, the transition to rural development policy would also be better adjusted to the needs of the new Member States.

- *Structural actions*. In order to facilitate the absorption of structural expenditure in the new Member States, the cohesion fund expenditure would be increased in order to reach one third of total structural expenditure in the total financial envelope for structural actions.

- *Internal policies*. Adjustments are foreseen for nuclear safety and for the continuation, until 2006, of certain institution building actions covered by the pre-accession strategy but which are not eligible under the existing acquis.

- *Cyprus (northern part)*. Adjustment is foreseen in view of the fact that the Berlin framework did not take full account of the northern part of Cyprus.

The Commission considers that, whilst remaining within the ceilings set by the European Council of Berlin, this package responds to the legitimate expectations and needs of the Candidate Countries , as expressed in the pre-accession phase and the negotiations concerning agriculture, structural actions, nuclear safety and institution building

The figures and the resulting totals following the adjustments for an enlargement with ten instead of six are given in the table in Annex. They do not yet take account of the fact that the new Member States, upon accession, may legitimately expect not to see the net balance vis-à-vis the Union, currently positive due to pre-accession expenditure, deteriorate. The margin should therefore be available as contribution to budgetary compensation payments, the size of which is to be determined at a later stage of the negotiations.

The underlying assumptions for the proposed adjusted expenditure are explained below. The remainder of this note sets out all these items in more detail.

III. Adjustment of the Berlin scenario

1. Agriculture

For agriculture, adjustments are needed, firstly, in the assumptions concerning the CAP market policy, secondly, for transition arrangements, to be proposed by the European Union, leading over a well defined number of years to the full application of Community law in the area of direct payments without prejudging the nature of the regime and, thirdly, for a better adaptation, for the period 2004-2006, of the European rural development policy to the needs of the new Member States.

For the ***CAP market policy***, calculations are based on the full application of the acquis for 10 new Member States immediately upon accession and on updated forecasts for the agricultural markets. Furthermore they assume EU common negotiating positions for supply of management instruments based on reference periods normally between 1995 and 1999. The corresponding adjusted amounts are equal to €516 million in 2004, €749 million in 2005 and €734 million in 2006.

In the Berlin framework, the assumptions underlying the calculations for 2002-2006 did not cater for ***direct payments*** in favour of the farmers in the new Member States. In their position papers, however, all Candidate Countries demand to be fully integrated into this aspect of the Common Agricultural Policy upon accession. The Commission considers that immediate full integration into the system of direct payments would not give the right incentives to farmers in the new Member States to engage in, or continue, the necessary restructuring. On the other hand, the new Member States should obtain an assurance about the moment when they will be fully integrated into the CAP, whatever its nature may be.

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

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

  As regards the practical application, the new Member States should have the option to grant, for three years (renewable twice for one year), the support to their farmers in a simplified form based on an area payment per hectare of agricultural land. This would familiarise them with the implementation mechanisms of the acquis while avoiding a number of complications that would arise from its immediate full application.

- In a second step after 2006, direct payments would be organised in such a way as to ensure that the new Member States reach in 2013 the support level then applicable. This would be achieved by expressing annual increases in direct payments in percentage steps instead of absolute amounts and by indicating that this transitional system does not prejudge any changes in the nature of the regime.

Furthermore, for the programming period 2004 to 2006, the Commission proposes to better adapt the transition to the European Union ***rural development policy*** to the needs of the new Member States:

- First, by increasing the European Union co-financing rate up to 80%, for the rural development measures financed by the EAGGF "Guarantee Section". This is currently the maximum level for structural programmes in Objective 1 regions located in the Member States benefiting from the cohesion fund.

- Second, in order to facilitate the implementation of rural development policy, by managing the policy according to the SAPARD rules, including differentiated appropriations.

Consequently, the corresponding commitment appropriations are adjusted for 2004 and 2005.

- Third, by adding to the existing measures of the rural development policy under the EAGFF “Guarantee Section” specific measures in order to cater for the specific situations in the Candidate Countries. These measures should neither be eligible to the EAGGF “Guidance Section” nor eligible to any other structural fund. In particular they should allow encouraging the restructuring of semi subsistence farms.

The corresponding adjusted amounts for rural development policies are equal to €1532 million in 2004, €1674 million in 2005 and €1781 million in 2006.

All the above elements are explained in more detail in the accompanying agricultural issues paper and will be integrated in the Commission’s draft common positions for the agricultural chapter which will be presented in time for the Council to define its common position in line with the road map.

2. Structural actions

The Berlin scenario foresees the benefits of the European Union structural actions for six new Member States over a period of five years (2002-2006). Since structural actions are only covered in the Berlin scenario until 2006, this limits the period to three years (2004-2006). For this period a middle ground needs to be found between the limits on absorption capacity and a faster profile than foreseen in Berlin for the first three years after accession. To this end, absorption could be increased if resources are focused more on ***cohesion fund expenditure*** for the new Member States. Indeed, in the pre-accession phase, the Candidate Countries are acquiring substantial experience in the development and implementation of environmental and infrastructure projects under the ISPA instrument. After accession, increased expenditure in favour of the cohesion fund would continue satisfying the high investment needs, also required under the Community acquis, of the new Member States in these two sectors.

A balanced approach would therefore be to propose envelopes for structural actions based on a share of one third for the Cohesion Fund, as suggested in the second Cohesion report and as proposed in the Commission information note of 23 November 2001, compared to 18% for the current four beneficiary Member States. The burden for the national budgets of the new Member States would be slightly lighter, as the co-financing rate in the cohesion fund (maximum 85%) can be higher than in the structural funds for Objective one regions (maximum 80% for Objective one regions located in a Member State covered by the Cohesion Fund). At the same time, the amounts foreseen under the Berlin scenario for structural funds in the first three years of accession and adjusted for 10 new Member States should remain unaffected. Furthermore, the increased share for the Cohesion Fund should be without prejudice to the priorities given under the structural funds to respectively human resources development, productive investment and infrastructure, which will be decided in due course on the basis of the assessment of needs. In this context, priority will be given to the delivery systems of structural funds where needed and to institutional building to address the shortages of administrative capacity in the development of public administration in the new Member States.

The corresponding adjusted amounts for structural operations are given in the table in Annex. They imply that, after applying the capping at 4% of GDP as stipulated in the Community acquis, the aid per capita for structural expenditure in favour of the new Member States would attain € 137[1] per capita in 2006. This compares to an average of €231[2] for the existing four Cohesion Countries.

All these elements should be the basis for the allocation of the funds amongst new Member States which will be provided for information purposes in due time, in accordance with the procedure described in the Commission information note of 23 November 2001, and be integrated through the appropriate steps in the Accession Treaty.

3. Internal policies

In general terms, the budget allocations for internal policies will be based on the first three years of the Berlin scenario adapted to cater for four additional new Member States. The Commission considers nevertheless necessary to foresee, at this stage, adjustments for nuclear safety and for the continuation, during the period 2004 - 2006, of certain institution building actions covered by the pre-accession strategy but which are not eligible under the existing community programmes or structural funds actions.

Nuclear Safety

Upon insistence of the European Union on a high level of nuclear safety, a number of candidate countries have decided to decommission several nuclear power plants which were internationally considered not to be upgradable at reasonable costs. In the pre-accession phase, the Union is supporting these decommissioning efforts. Three decommissioning funds have been established and are being funded through Phare and bilateral contributions.

The Commission proposes to allocate specific amounts, which correspond to the continuation, in appropriate form, of the pre-accession expenditure planned under Phare for decommissioning of the Bohunice nuclear power plant in Slovakia. It is assumed that some additional €20 million for Slovakia is needed for each of the years 2004, 2005 and 2006.

Similarly, additional funds will be necessary to continue pre-accession expenditure planned under Phare for the decommissioning of unit 1 of the Ignalina nuclear power plant in Lithuania. Furthermore, Lithuania still needs to confirm the closure date of 2009 for unit 2 of this nuclear power plant. The decommissioning of a RBMK nuclear power plant of this capacity is a burden for Lithuania in view of its economic importance relative to the country's size, rendering necessary additional support for its decommissioning efforts, which should continue for the next decades. The additional amounts are based on current estimates that will need to be revised on the basis of the joint elaboration of more detailed decommissioning costs within the framework of the joint EC-Lithuania Energy Working Group, and amount to €105 million in 2004 and €70 million for each of the years 2005 and 2006.

Transition facility for institution building

One important factor for accession, identified in the negotiations, the regular reports and the accession partnerships, consists in building up adequate administrative structures and strengthening administrative capacity to implement the acquis. Institution building represents currently about €1 billion per year and is financed by the pre-accession instruments (mainly Phare). The Commission is discussing with all negotiating Candidate Countries the

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[1] This represents nearly 2.5% of total GDP of the new Member States.
[2] This represents 1.6% of total GDP of the four Member States that currently benefit from the Cohesion Fund.

implementation of action plans for institution building. This is a long-term effort which has to be continued after accession.

Structural funds will replace Phare and permit the financing of the vast majority of institution building actions. In this context the European Social Fund will contribute to the modernization of public administration and the development of delivery structures for the human resources development.

However, on the one hand there is a number of institution building actions, which are not eligible under the existing Community programs and structural funds and, on the other hand, there is the necessity to ensure a smooth phasing-out of the Phare actions started before accession and the phasing-in after accession of actions eligible to the structural funds under the best conditions of sound management.

Therefore the Commission proposes to establish a transition facility. This facility would allow the completion until 2006 of certain institution building actions started under Phare before accession and the effectiveness and best use of previous investments and to guarantee a continuity of the ongoing efforts on different priority areas. This transition facility would also allow, until 2006, the continuation of certain institution building actions which are not eligible under the structural funds. The use of the facility which will decided by the time of the accession treaty will need to be carefully defined, especially to avoid the possibility of overlapping and double financing. The additional amounts proposed for this transition facility are €200 million in 2004, €120 million in 2005 and €60 million in 2006.

Both decommissioning and the transition facility for institution building could be treated under the chapter ‘other matters’.

4. Cyprus (northern part)

In line with the European Council conclusions of Helsinki, the Union is actively encouraging the parties involved to resolve the Cyprus problem and to come to a political settlement. However, as decided by the European Council in Helsinki, if a settlement has not been reached before completion of the accession negotiations, this will not be a pre-condition for the Council to take its decision on accession. As the Berlin financial framework did not fully take into account the northern part of Cyprus, the Commission proposes to adjust the framework in the context of a political settlement.

For the scenario adjusted to take account of a political settlement, a sum for commitments and payments is therefore included under headings 1, 2 and 3. Moreover, the northern part of Cyprus, which is one of the poorest regions within the Candidate Countries, is not a beneficiary of the pre-accession funds. In addition to the structural actions foreseen, this has been taken into account in order to support this region catching up in its development after accession.

The total amounts foreseen in commitments for the northern part of Cyprus are €39 million in 2004, €67 million in 2005 and €100 million in 2006. More than 70% of the total of these amounts is foreseen under heading 2, while for headings 1 and 3 the percentages are around respectively more than 20% and 7%.

These elements can be integrated into the negotiations at a later stage in the context of a political settlement, in time for the conclusion of the Accession Treaty.

5. Administration

For administrative expenditure, the base for calculation are the amounts close to the ones available under the first three years (2002-2004) of the Berlin framework under this sub-heading, adapted for an enlargement with ten in 2004 instead of six in 2002.The increase in number of new Member States creates a more than proportional increase of expenditure because of the influence of certain elements, like the impact of every new community language on translation and interpretation services.

IV. Transitional arrangements for budgetary compensation

It is foreseen that the own resources decision is fully applied by the new Member States from the first year of accession. However, at each previous enlargement, all new Member States benefited from transitional arrangements on their financial obligations towards the Community budget. These arrangements were each time based on the specific context of the accession of the new Member States.

All Candidate Countries have requested a treatment in this regard no less favourable than at previous enlargements.[3]

In the context of the forthcoming enlargement, the purpose of the transitional arrangements would be to offset any deterioration of the net budgetary position of the new Member States in comparison with their situation in the year before accession as beneficiaries of pre-accession funds. Different elements could explain such deterioration:

- It could result from the fact that the new Member States will have to pay immediately full contributions to the budget, while the level of payments for differentiated appropriations will lag the corresponding level of commitments. Even taking account of continuing payments after accession from pre-accession funds, this could lead to deterioration.

- Also, reimbursements from the EU budget for Member States' expenditure on direct payments is only made the year after their payment to farmers. This would also apply to the simplified area based system. Under such circumstances, there would be no reimbursement to the new Member States out of the 2004 Budget, while they would be required to fully contribute to this budget with their own resources contribution.

In the current enlargement, any transitional arrangements granted should involve refunds through lump sums, degressive and temporary payments on the expenditure side of the budget. No new Member State should find itself in a net budgetary position which is worse than the year before enlargement. To this end the margin of €816 million in 2004, €800 million in 2005 and €814 million in 2006 for commitments is available as contribution to budgetary compensation. The Commission proposes that any annual payment for budgetary compensation should not exceed the ceiling for payments for enlargement foreseen in Berlin.

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[3] In 1981, Greece was granted a 5-year diminishing reduction (70% to 10%) in its payments on the VAT resource. In 1986, Spain and Portugal obtained a 6 year diminishing reduction (87% to 5%) of their payments on the VAT resource, extended to the GNP resource when it was introduced in 1988. In 1995, Austria, Finland and Sweden were granted 4-year lump sum payments out of the general budget decreasing from €1.5 billion in 1995 to € 0.7 billion in 1996, € 0.2 billion in 1997 and €0.1 billion in 1998

All these elements will be integrated in the Commission's draft common positions for the budget and financial provisions chapter, which will be presented in time for the Council to define its common position. However, since the definition of the lump sum will depend on the final outcome of the negotiations in the other chapters, the Commission will propose the appropriate amount for the budgetary compensation payments only in the context of the conclusion of the negotiations on the other chapters.

V. Article 25 of the Interinstitutional Agreement

Article 25 of the Interinstitutional Agreement *« Adjustments of the financial perspective to cater for enlargement »* has anticipated an adjustment of the Berlin scenario for enlargement. It stipulates:

"Where the Union is enlarged to include new member States during the period covered by the financial perspective, the European Parliament and the Council, acting on a proposal from the Commission and in accordance with the voting rules under the fifth subparagraph of Article 272(9) of the EC Treaty, will jointly adjust the financial perspective to take account of the expenditure requirements resulting from this enlargement.

Without prejudice to the outcome of the accession negotiations, the change in the headings concerned should not exceed the amounts shown in the indicative financial framework based on the assumption of an enlarged Union with six new Member States from 2002 and contained in Annex II, which forms an integral part of this Agreement.

The additional requirements will be covered by the available amounts set aside for this purpose in the financial perspective and, if necessary, by using the additional own resources resulting from the increased Community GNP after enlargement of the Union."

The Commission considers that the orientations prescribed in this information note, which respect the ceilings agreed in Berlin, are consistent with the Interinstitutional Agreement and would allow corresponding adjustments in the financial perspective after finalisation of the negotiations.

ANNEX

Financial Framework for Enlargement

2004 – 2006

(€m, 1999 prices)

Scenario: Accession of 10 new Member States in 2004	***2004***	***2005***	***2006***
COMMITMENT APPROPRIATIONS			
Agriculture	2048	3596	3933
Structural operations	7067	8150	10350
Internal Policies	1176	1096	1071
Administration	503	558	612
Total commitment appropriations	**10794**	**13400**	**15966**
Total commitment appropriations *(Berlin 1999 scenario)*	*11610*	*14200*	*16780*
Payment appropriations (Enlargement)	**5686**	**10493**	**11840**
Payment appropriations *(Berlin 1999 scenario)*	*8890*	*11440*	*14220*
PM Budgetary compensation payments	….	….	….