Agenda 2000: the new financial framework 2000-2006, the future financing system of the Union

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OBJECTIVE: AGENDA 2000: presentation of the future financial framework for the period 2000-2006, having regard to the prospect of the enlargement of the Community. SUBSTANCE: the future financial framework should cover consistently and within a reasonable, limited budget the development of Community policies and the issues relating to enlargement to include new Member States. The definition of the future financial framework respond to three main concerns: - to cover a broad enough period of time: 2000-2006; - to allow the funding of essential needs: agricultural policy, cohesion policy, development of internal policies, assertion of the role of the Union on the international stage, financing a modernized European administration; - to ensure the sound management of public finances: the Community's ceiling of 1.27% GNP for own resources should remain unchanged. In this respect, the Commission considers that, with economic growth estimated at 2.5% per annum for the 15 Member States over the period 2000-2006 and estimated at 4-5% per annum by 2006 for the new Member States, the retention of this ceiling could result in potential additional resources of approximately ECU 20 billion. A. EXPENDITURE: six major categories were defined: (1) the CAP: maintaining the current method of calculating the agricultural guideline would not pose any difficulty in covering identified agricultural expenditure needs (46% of the Community budget). For the 15 Member States, the reformed CAP would cover: - market intervention measures and export refunds (with a foreseeable saving of ECU 3.7 billion), - direct compensatory aid (with foreseeable additional expenditure of ECU 7.7 bn), - existing accompanying measures (agri-environment, afforestation, early retirement) accompanied by the new rural development accompanying measures and the horizontal measures in the fisheries sector (between ECU 1.9 bn and 2.1 bn). Expenditure for the applicant countries would include: - pre-accession aid estimated at about ECU 500 million per year, for modernizing farms and agri-foodstuff distribution chains. Following the accessions, this figure would remain the same for those countries not due to join until later, - expenditure relating to the accession of the new Member States for market organization measures (between ECU 1.1 and 1.4 billion per year), enhanced accompanying measures and special modernization aid following on from the pre-accession measures (from ECU 0.6 to 2.5 billion after the accession). Application of the guideline as it stood would leave a financial margin that would grow from 2003 onwards, reaching a very substantial amount by 2006 (ECU 4.7 billion). This margin would be essential in order to cover agricultural market uncertainties, to facilitate the integration of new Member States and to prepare for further enlargement; (2) structural expenditure: this expenditure would be maintained at the 1999 level, namely 0.46% of the Union's GNP. The total allocation for the period 2000 to 2006 would therefore be ECU 275 billion of which: - ECU 210 billion would be allocated to the current 15 Member States, on the basis of new guidelines (two-thirds would be allocated for measures in 'Objective 1' regions, which would be gradually phased out of these arrangements; one-third would be for other objectives, concentrating expenditure on areas with a low eligible population density with high unemployment). For the Commission, partnership was the most important issue in order to coordinate public and private financing in all areas where Community aid was to be considerably reduced; - ECU 45 billion would be allocated to the new Member States: pre-accession aid to be taken from this budget would be made available from the year 2000 and would aim to bring the applicant countries' infrastructure, transport and environment up to Community standards; - ECU 20 billion for the Cohesion Fund (with a review of eligibility under the criterion of per capita GNP being lower than 90% of the Community average, carried out half-way through the period); (3) internal policies: in this context, there were two main concerns: targeting available resources so that they were not wasted on measures that were unlikely to have a significant impact and increasing allocations for certain programmes which had been given priority (trans-European networks, research and innovation, education and training, environment-friendly technologies and measures to support SMUs). These guidelines would mean raising the ceiling slightly more than the rise in the GNP of the 15 Member States; (4) external actions: special attention should be paid to the

development of pre-accession aid during the first part of the period under review. After the first accessions, the total amount of this aid should remain stable at ECU 1.5 billion and be concentrated exclusively on the countries due to join at a later date. The Community would be able to develop its aid to the former Soviet republics, the former Yugoslavia, Albania, the Mediterranean countries and Turkey. It could also step up its humanitarian aid; (5) administrative expenditure: enlargement would involve a certain increase in costs as a result of the new working languages, the new tasks for the Community and the accommodation of nationals from the new Member States. Moreover, there would be additional expenditure caused by the ageing of the European civil service (retirements). Nevertheless, this could be controlled through the internal rationalization measures that the Commission had already begun to implement; (6) reserves: these should reduce with the gradual phasing-out of the monetary reserve by 2003 and the reduction in the emergency aid reserve. B. REVENUE - FINANCIAL ARRANGEMENTS: during the period 2000-2006, it would be possible to face the challenges of enlargement without exceeding the existing own resources ceiling (1.27% of GNP). The Community budget should rise to ECU 92.5 billion in payment appropriations from the year 2000 and reach ECU 111.4 billion in 2006 (compared to ECU 82.3 billion in 1997). The current decision on own resources would therefore remain unchanged. However, during 1998, the Commission would present a full report on the functioning of the own resources system covering also the mechanism used to reduce the contribution of the United Kingdom and the possibility of introducing a new own resource. It noted, in this respect, that the margin available under the financial resources available had never been fully utilized. Combined with the increases in the own resources ceiling for the period from 1997 to 1999, these important financial margins could be used to help accommodate a first wave of accessions. The introduction of a new own resource (based mainly on a new tax-based system) presented so many technical and institutional obstacles that it was not an option for the near future. C. MAIN TRENDS TO 2006: a first wave of accessions would affect the budgetary position of all the present Member States who were net beneficiaries of the Community. Applicant countries would have a strong claim to substantial amounts of Structural Fund payments and would enjoy long transitional periods (particularly for the own resources payment). Similarly, the Community budget would be influenced by the necessary reforms: agricultural policy, structural policy, etc. There still remained the problem concerning the contribution paid by the United Kingdom, which receives compensation until its level of prosperity reached to that of the other Member States. This issue, together with the general financing of the budget, would both be closely considered after the first wave of accessions. There might be the possibility of introducing a general rebate mechanism which would incorporate the problem of the United Kingdom and alleviate the imbalances in the most important sections of the budget.