2005 budget: section III, Commission

2004/2001(BUD) - 28/04/2004

PURPOSE : to present the Commission's preliminary draft budget for 2005 (Section III – Commission).

CONTENT : the Commission adopted today its proposal for the European 2005 budget. It will be the first budget covering the expenditure for 25 Member States over the whole year. The room for new initiatives in 2005 is rather small as most expenditures are already fixed by prior decisions of the Council and EP.

The Commission proposes a budget volume of EUR 109.5 billion. The current Financial Perspectives would provide for a maximum of EUR 114.2 billion.

This volume of expenditure (payment appropriations) proposed by the Commission is equivalent to 1.03% of the gross national income of the EU-25. The financial framework agreed for the enlarged Union provides for a maximum of 1.08% of GNI for the EU budget. The preliminary draft is far lower - by EUR 4.7 billion - than the ceiling agreed for 2005.

This rise of EUR 9.7 billion is due to the full incorporation of the new Member States (+EUR 3.9billion), the reform of the Common Agricultural Policy (+EUR 1.3 billion) and the improved use of the structural funds (+EUR 2.7 billion).Thus, these three factors explain more than 80% of the total increase in payments.

The commitment appropriations come to EUR 117.2 billion for the enlarged Union. For the EU-25, this results in an increase of 5.2% over 2004. The total amount leaves a margin of EUR 2.4 billion under the ceiling for 2004.

MAIN BUDGETARY CHARACTERISTICS :

- Agriculture: Total requirements for the EU-25 come to EUR 50.7 billion, of which EUR 6.8 billion is projected for rural development (15% more, the largest increase). The estimate for the new Member States comes to EUR 3.6 billion, of which EUR 1.9 billion is for rural development. The amount for market and veterinary expenditure in the new Member States has substantially increased but is still relatively low as direct aid is being phased in. This is the first year for the payment of direct aids to the new Member States.

The increases (+EUR 4.42 billion in payments) are due in particular to enlargement (EUR 2.1billion), but also the exchange rate between the EUR and the USD (1EUR = 1.25 USD), which entails supplementary costs of 240 million. Additionally, the CAP reform will add 1.3 billion in 2005. The bulk of the rest of the increase is explained by a return to normal conditions after the drought in summer 2003 (EUR 400 million).

The Commission will present the latest estimates for agricultural expenditure in a letter of amendment in October 2004.

- Structural measures: The Structural Funds are the second biggest spending area in the enlarged Union. The volume of commitment appropriations for the Structural Funds shows an increase of 3.3% for the enlarged Union. Out of a total of EUR 42.4 billion, EUR 7.7 billion will be allocated to the new Member States.

Expenditure (payment appropriations) on the Structural Funds comes to EUR 35.4 billion for the enlarged Union, 14.8% more than in the 2004 budget. This significant increase is mainly due to the doubling of the

amount to be spent in the new Member States. Cohesion Fund expenditure is lower for both old and new Member States, following the terms of the agreement reached in Copenhagen and Ireland's loss of eligibility for the Cohesion Fund.

- Internal policies: compared to the increases in the two categories described above the levels of estimates for internal policies in 2005 are relatively stable. Total commitment appropriations are put at EUR 8.95 billion, with payment appropriations at EUR 7.7 billion, an increase of 2.8%. EUR 5 billion in commitment appropriations is available for expenditure on research. This shows that support for the Lisbon objectives will continue to be given a high priority in the enlarged Union. Education and culture, also of key importance for competitiveness, are proposed to be allocated EUR 885 million.

The concept of safety and protection will financially be supported in the energy and transport area. Decommissioning of the nuclear installations of the Joint Research Centre will receive EUR 67 million. Additional EUR 139 million are budgeted for the dismantling of the nuclear power stations of Ignalina (Lithuania) and Bohunice (Slovakia) Consumer policy, public health and food safety and the launch of the new European Centre for disease prevention and control will be supported by a combined EUR 120 million.

The new external borders and the bigger area of free movement will be protected by actions supported from the customs programme, and over EUR 530 million for justice and home affairs, including the visa information system and the refugee fund. EUR 336 million remain available for the new Member States' control of external borders, and EUR 13 million for a transitional facility for Kaliningrad.

- External aid: for 2005, the Commission proposed to make financial commitments of just above EUR 5.2 billion for foreign policy measures, approximately the same level as in 2004. And as in 2004, the Commission intends to go beyond the maximum amount of the financial framework for exceptional expenditure for the continued support for stabilisation and reconstruction in Iraq, which was not initially programmed. This amount will allow the stabilisation of aid to Eastern Europe and Central Asia (515 million) and Latin America (315 million) and boost the neighbourhood policy with the Mediterranean countries and Middle East (with a total of EUR 1070 million, allowing 200 million for Iraq). After the years of reconstruction in the Balkans, the level of aid will decrease to EUR 554 million. The European Union will thus be able to continue to fulfil its political commitments in this region of Europe. The appropriations for Asia still continue to support the reconstruction of Afghanistan (EUR 648 million for the region).

In thematic programmes, the cooperation with non-member countries on migration questions shall be increased to 45 million, food-aid will be increased by 4% (up to EUR 436 million) and the health budget lines will be consolidated. In all, over EUR 1 billion is proposed from the EU budget for development policy for the poorest countries, not taking account of the over EUR 3.4 billion foreseen from the European Development Fund. The Commission proposes that the appropriations for the Common Foreign and Security Policy be programmed at EUR 55 million EUR million in commitment appropriations. The joint police mission in BiH and FYROM still play a considerable role in this field.

- Concerning the pre-accession strategy now embraces Romania, Bulgaria and Turkey. Assistance to all three countries will be increased considerably from 2004 onwards. The pre-accession aid for Romania and Bulgaria will be increased to 1 550 million, while EUR 300 million in commitment appropriations are available for Turkey. Payments of some EUR 1.538 million will still flow to the new Member States from this heading, for terminating pre-accession programmes begun in 2003 or earlier. As regard support to Northern Cyprus, the Commission will have to come back soon with appropriate proposals.

In accordance with the decisions adopted at Copenhagen, total payments of EUR 1.3 billion will be provided for the new Member States in the 2005 budget as compensation. These will ensure that the new Member States will still be net recipients after accession, and is roughly 100 million lower than in 2004.

- Administrative expenditure : the estimated administrative expenditure of the institutions of the European Union (refer to BUD/2004/2002) comes to EUR 6.36 billion, 3.9% higher than in 2004. The Commission is asking for 700 new posts as part of the medium term adjustment to enlargement. Approximately half of the new staff will be devoted to linguistic services. The number of Commissioners will be reduced from 30 to 25.

The entry into force of the new staff regulation will bring savings of about 40million for the Commission's administrative budget.

Lastly, the return to the Berlaymont building will cause rent costs of EUR 32 million in 2005.