Revision of the financial perspective 2000-2006

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PURPOSE : to revise the financial perspective 2000-2006 in order to take account of the modifications made to Headings 1 and 2 of the Financial Perspective.

PROPOSED ACT : Decision of the European Parliament and of the Council (Interinstitutional Agreement).

CONTENT : the reform of the Common Agricultural Policy (CAP) adopted by the Council in September 2003 foresees a reduction in direct payments ('modulation') to finance rural development

policy. That will entail a system of progressive reductions in direct payments to be introduced on a compulsory Community-wide basis for the years 2005 to 2012, to achieve a better balance between policy tools designed to promote sustainable agriculture and those designed to promote rural development and to finance the additional rural development measures. All direct payments above EUR 5,000 will be reduced by a given percentage each year. The resulting savings will be used to finance additional measures under rural development policy and allocated to Member States according to objective criteria. The modulation rate will start in 2005 at 3% of amounts to be granted to farmers, rising to 4% in 2006 and reaching 5% for the period 2007-2012.

As a result, part of the commitment appropriations currently foreseen for direct payments under subheading 1a 'Common agricultural policy' of the financial perspective will be transferred to subheading 1b 'Rural development'. This transfer, however, will have no effect on the overall ceiling of heading 1 'Agriculture' since modulation simply implies a zero-sum game between its two subheadings. The first year (calendar year 2005 = budget year 2006) of this transfer of appropriations

coincides with the last year of the current financial perspective. Modulation will not apply in the new Member States during the period of phasing in of the direct payments.

Current estimates for the commitment appropriations to be transferred from subheading 1a to subheading 1b for the budget 2006 point to a figure of about EUR 655 million. The introduction of modulation therefore requires the financial perspective to be revised in accordance with the procedure set out in points 19 to 21 of the IIA.

Since the overall ceiling of heading 1 will not change, the Commission proposes to insert the following footnote in the financial perspective tables for the year 2006 for heading 1: "The respect of the ceilings of the financial perspective does not prevent, in 2006, the transfer of appropriations under subheading 1a to subheading 1b, on account of modulation, under the conditions and within the limits laid down in Article 10 of Council Regulation No 1782/03."

Equally, the Commission intends to introduce a modification to Heading 2 'Structural Actions' of the Financial Perspectives in order to take account of the new request for intervention for the PEACE Programme between 2004 and 2006. The consolidation of the peace process in Northern Ireland, to which the PEACE programme has made an essential and original contribution during the period 2000-2004, still requires some financial support from the European Union for the remaining period of the financial perspective 2000-2006. In this regard, the European Council of 17 and 18 June 2004 notably

invited the Commission to examine the possibility of aligning the PEACE II interventions with other structural actions which come to an end in 2006, including their financial implications. Due to the specific

nature of subheading 'Structural funds' in the financial perspective and the absence of margin under this subheading, the supplementary expenditure for PEACE II for the years 2005 and 2006 entails raising the ceiling for commitment appropriations of the subheading 'Structural funds' by the relevant amounts. These amounts are foreseen in Council Regulation, to be adopted shortly (CNS/2004/0228), modifying the EC Regulation 1260/1999/EC laying down general provisions on the Structural funds.

The Commission also proposes the following adjustments necessary to the continuation of the PEACE programme and to the loss of eligibility of Ireland to the Cohesion Fund:

- to increase the ceiling for commitment appropriations of subheading 'Structural funds', decrease that of subheading 'Cohesion fund', and adjust the ceiling of heading 2 'Structural actions' accordingly for the years 2005 and 2006, at 1999 prices;

- to make the technical adjustment of these amounts for the year 2005, in line with the evolution of prices and GNI (gross national income).