2006 budget: Section III, Commission

2005/2001(BUD) - 27/04/2005

PURPOSE : The presentation of the Preliminary Draft Budget for 2006 (Section III : Commission)

CONTENT : The present proposal for a preliminary draft budget, 2006 is based on the last annual budget under the current financial perspective. It aims to complete the financial undertakings made for 2000-2006 and to manage more recent challenges such as the continuing budgetary integration of the new Member States.

The proposed EUR 112.6 billion in payments represents an increase of 6% on the 2005 budget, and is equivalent to 1.02% of the Union's GNI. The amount for which the Commission can enter into financial undertakings in 2006 . The commitment appropriations is set at EUR 121.27 billion, an increase of 4% on 2005, and equivalent to 1,09% of GNI. The proposal reflects real needs in commitments and the latest estimates for payments. It leaves sizeable margins of EUR 6.7 billion under the financial perspective payments ceiling, and EUR 2.4 billion under the commitments ceiling.

The proposed budget takes account of the specific priorities, which echo the priorities set out in the Commission's five year strategic objectives for 2005-2009, namely prosperity, solidarity and security, as well as the external projection of these goals. Furthermore, the Council's 2006 budget guidelines highlight the importance of an adequate financing of Community measures relating to the conclusions of the Lisbon European Council. The drive for prosperity will focus on the re-invigorated and re-focused Lisbon Agenda. Budget support will be provided, notably in the fields of research, education and training, assistance to SMEs, and the Trans-European Networks in the transport and energy sectors. Funding to respond to security concerns of Europe's citizens will support the fight against terrorism, combating drug trafficking, maintaining food safety, improving transport safety, and fostering security of energy supply.

MAIN POINTS BY HEADING :

- Agriculture (Heading 1) : For Agriculture the Commission proposes a budget of EUR 51 412 million, which is set to increase by 3,5 % over 2005, due in particular to the increase in rural development up to EUR 7 771 million (+ 13,6 %) which exceeds by 655 million of modulation the increase of the ceiling of subheading 1b. Direct aid, market and veterinary expenditure is set to increase to EUR 43 641 million (+ 1,9 %). Thus the margin available in heading 1 is EUR 1 206 million. The raise in rural development expenditure is in line with the European Parliament's wish to consider it as a crucial part of the Lisbon Strategy. The increase in the proposed budget is as follows: EUR 806 million extra for sub-heading 1a and EUR 930 million for sub-heading 1b. The 2006 budget is the second such budget covering the needs related to CAP reform, which entails important changes to the system of direct aid. The 2006 budget is also the first to assume the budgetary impact of modulation, in other words a partial transfer of direct aids from subheading 1a to rural development financed under subheading 1b. The Commission intends to use the facility offered by the Inter institutional Agreement to reassess needs in the context of the Letter of Amendment in October 2005 thus allowing it to base its budgetary proposals for agriculture on the most recent economic and market-driven statistics.

- Structural Measures (Heading 2): The proposed budget for structural measures of the 25 European Union conforms with the financial perspectives attached to the inter-institutions conclusions of the Copenhagen European Council. The total amount in commitment appropriations for 2006 and applying to the EU 25 is equivalent to EUR 44 555, of which the Cohesion Fund absorbs EUR 6 032 million (or 14%). Commitments for the Structural Funds under structural actions will increase by 3.3% to EUR 38 523 million for the structural funds, whilst the Cohesion funds will increase by 17.5% - an increase of

EUR 6 032 million. In terms of overall growth rates in commitments and margins available, structural actions are 5% higher than in 2005. A large part – or around 2/3, of this increase arises from an increase in commitment appropriations available for the new Member States under the Structural Fund programmes. Total commitments for the Cohesion Funds will increase by around 18% between 2005-06. This increase is mainly due to the 35% increase in commitment appropriations for the new Member States. Ireland's loss of eligibility for the Cohesions Fund translates into a reduction of around EUR 62 million relative to the Financial Perspective. Regarding the question of payment appropriations and outstanding commitments (RAL), there will be an increase in the RAL in 2006 for the 2000-2006 programmes, as payments are less than 100% of commitments for both EU 15 and the new Member States. This is in line with programmes foreseen by the Commission.

- Internal Policies (Heading 3): The proposed expenditure under Internal Policies for the financial year 2006 is EUR 9 218 million. EUR 8 837 million will be spent on payment appropriations. The resulting margin is EUR 167 million. Payment appropriations rise by 11.5% compared to 2005 – this raise is mainly related to an absorption of the commitments made after enlargement which increases significantly the budget of this heading for the period 2004-2006, in particular research. Priorities for the Internal Policies heading are determined by the Lisbon Agenda. For 2006, the Commission proposed focusing on 3-4 political priorities namely: prosperity, solidarity and security. Concerning "Prosperity", the Commission recommends that emphasis be given to Research, Technology, Development and Innovation as well as encouraging the free movement of researchers. Particular emphasis is also put on energy and transport, economic and financial affairs, information society, education and culture, enterprise, as well, as freedom, security and justice, which is also a core priority of the five years Commission's strategic objectives for 2005-2009.

- External Actions (heading 4): Under this heading, the Commission seeks to manage new challenges (such as the post-tsunamis reconstruction) whilst at the same time managing on-going priorities such as actions in Iraq and Afghanistan. The commitment appropriations proposed for external actions are up by 1.4% to EUR 5 392 or EUR 75.5 million over the budget for 2005. Since this amount exceeds the ceiling of the financial perspective, the Commission proposes contributing to the post-Tsunami reconstruction effort by EUR 180 million in total. It intends to do so by having recourse to the flexibility instrument. As far as the payment appropriationsare concerned, the overall level proposed is around EUR 5,4 billion and represents a decrease of 2 % as compared to 2005. The proposed level of payments will allow the Commission to carry on its efforts on the absorption of the outstanding commitments. It further reflects the gradual improvement achieved in the aid delivery notably as a result of the reform of the external aid policy and mechanisms.

- Administrative Expenditure (heading 5): Expenditure under this heading will increase by 6.2%, leaving a margin under the financial perspective ceiling of EUR 25 million. The total budget though will be set at EUR 6 683 million. The Commission is requesting 700 new posts related to the last enlargement, and 100 external staff to prepare the accession of Bulgaria and Romania.

- Pre-accession strategy (heading 7): Preparation for future enlargement will continue, in line with the roadmaps agreed for Bulgaria and Romania. Turkey and Croatia will also continue to benefit from the pre-accession strategy funding. An overall amount of EUR 2 481 million is programmed for a pre-accession strategy, which represents an increase of 19.2% on the 2005 budget – but still leaves a margin under the ceiling of EUR 1 085 million.

The next step in the budgetary procedure will be the Council's first reading in July 2005, following by Parliaments first reading in October. The second readings will be in November and December.