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**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Annual Policy Strategy for 2005

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1. INTRODUCTION

1.1. Background

The Annual Policy Strategy constitutes the first stage of the Commission's annual policy cycle. For 2005, the following objectives will be pursued:

- establish the policy priorities for 2005;
- identify the initiatives which will help to realise these priorities;
- adopt the budgetary framework and guidelines, so that the priority initiatives receive the necessary resources, and for the purpose of financial programming.

The Annual Policy Strategy defines the framework and guidelines for the budgetary and legislative cycle. Following adoption of the strategy, the cycle moves on to the preparation of the preliminary draft budget and the interinstitutional dialogue.

Given the specific circumstances of the year 2004, with both the legislative period and this Commission's term of office coming to an end, appropriate provisions have been approved for the structured dialogue:

- The structured dialogue will entail a meeting between the Commission and the Conference of Chairmen of parliamentary committees in April. It will be conducted with the Council in accordance with the usual arrangements, under the authority of the Committee of Permanent Representatives.
- The review of the structured dialogue will take place at a second meeting in September. As far as the Council is concerned, the assessment will be made at a General Affairs Council meeting in accordance with the current provisions.
- On this basis, the work programme will be drawn up for adoption by the new Commission shortly after it takes office. At the same time, it will consider the priorities and approaches set out in the present decision. The work programme will then be presented to Parliament and the Council in December.

The whole cycle will thus form the basis for the operational programming carried out by the Directorates-General and departments, which will incorporate the policy priorities into their annual management plans for 2005. The annual activity reports will take stock of the implementation of these management plans, and will be summarised in notifications to the European Parliament, the Council and the European Court of Auditors.

1.2. Specific features of the 2005 exercise

This exercise is exceptional in that the current Commission will establish a political and budgetary framework, while the next Commission will be responsible for implementing the policy priorities in 2005. On top of that, the framework will be adopted in the autumn in the presence of a newly elected European Parliament.

It is, however, advisable to safeguard the continuity and consistency of the policies for which the Commission is responsible, and to ensure that it meets its institutional obligations. At such a time of change, the strategic planning and programming cycle, which was introduced as part

of the internal reform with a view to promoting better governance, must play its part fully and provide one of the continuity safeguards.

This APS decision has accordingly been drawn up by the Commission with the following objectives:

- to ensure a smooth handover to the next Commission, via a stocktaking process¹, guaranteeing the continuity of action taken and drawing attention to areas where action will be needed after it takes up its duties in November 2004. When the new Commission arrives, it will consider the priorities for 2005 and chart the path for future years;
- to prepare the ground for the next Commission, preserving as far as possible its scope for political and budgetary manoeuvre. The 2005 exercise will be of particular importance from this point of view;
- to ensure consistency with the priorities outlined for the post-2006 financial perspective. In fact, the political elements of the draft document setting out the new financial perspective will begin to be implemented as of next year. Lastly, consistency should also be ensured with the Council's first strategic programme 2004-2006, adopted in December 2003.

2. THE UNION'S SITUATION IN 2005

At Community level, 2005 will be the first year of the new Commission, and therefore the starting point for implementation of its policy agenda for the duration of its term of office.

2005 will, moreover, be a key year for carrying through all of the measures connected with the future financial perspective, including the legislative proposals relating to the next generation of Structural Funds, which need to be adopted by the end of 2005.

2005 will be a crucial year to ensure proper functioning of the newly enlarged Union and the appropriate resources will have to be provided to meet this challenge.

2005 could mark a turning point in the process of ratifying the new Treaty. Preparations should be made for the institutional and political changes likely to result from the IGC.

As far as internal policies are concerned, having regard to the large number of scheduled meetings, the following points must be noted:

- the mid-term review of the Lisbon Strategy, providing an opportunity to examine in detail the economic, social and environmental aspects of Community policies for the years 2005-2010;
- re-examination of the strategy for sustainable development, set in train at the Göteborg European Council;

¹ Upon taking office, the Prodi Commission set itself four strategic objectives: promotion of new forms of European governance; a stable Europe with a stronger voice in the world; a new economic and social agenda; and a better quality of life. Cf. *The Commission's strategic objectives for 2000-2005*, "Shaping the new Europe"; COM(2000) 154 of 9 February 2000.

- definition of a new Social Agenda for the period after 2006;
- consolidation of the European area of freedom, security and justice, deriving from the Tampere programme, which will require the adoption of additional legislative instruments;
- lastly, a critical stage in preparing the accession of Romania and Bulgaria is expected to be reached in 2005, as well as continuation of the pre-accession process for Turkey, including associated financial support, and possible start of the pre-accession process with Croatia.

At international level, it is likely that 2005 will continue to be shaped largely by matters relating to international peace, security and stability, the global fight against poverty, and the aftermath of the Iraq conflict:

- bearing in mind that the year will start with a newly elected or re-elected President of the United States;
- according to the “roadmap”, a Palestinian State is to be established at this time;
- having regard to development and trade relations, various meetings are already planned, notably the UN review on progress on achieving the Millenium Development Goals and the revision of the Cotonou Agreement. A further point to note is that January 2005 is the target date for concluding the cycle of trade negotiations launched in Doha.

3. THE POLICY PRIORITIES FOR 2005

Beyond the policy priorities, there is one fundamental operational priority for the Commission, which will be a critical factor of its action in 2005: ensure the success of enlargement and shape the future of Europe. This means guaranteeing the proper functioning of the enlarged Europe and the full application of the policies and rules within all the Member States. It will also be necessary to ensure the continuity of ongoing activities, especially the main common policies, linked to cohesion and the single market. In this connection, the allocation of additional human resources until 2008 will be crucial in enabling the Commission to meet its institutional responsibilities.

Besides this operational priority, the Commission has identified the policy priorities for 2005, in the context of an enlarged Union of 25 Member States, tying in with the objectives set in previous years:

- the Commission’s central objective will be to provide a new momentum of economic growth, based on enhanced competitiveness and cohesion;
- the objective of stability and security will be maintained, through efforts to improve security and European Citizenship for a greater number of more mobile citizens;
- strengthened by its new continental legitimacy, the Union will take on a new external responsibility, with emphasis on the neighbourhood dimension.

3.1. Competitiveness and Cohesion

Over the last decade, the rate of growth in the Union has fallen to a level of just 2%. At the same time, the Union is about to welcome ten new Member States whose relative weight accounts for 20% of the EU population but only 6% of its GDP. In view of the lacklustre economic performance recorded recently by the Union and the persistent shortfall in our productivity and employment rates, and given our desire to integrate successfully the new Member States, an upturn in growth will be the central policy objective of the Commission, striving constantly to improve the competitiveness of the European model while maintaining prosperity, employment, cohesion and environmental protection, as integral elements of the sustainable development agenda. The stability of the macroeconomic framework, the concrete implementation of the Growth Initiative and the pursuit of structural reforms inherent in the Lisbon Strategy will be of vital importance. The proper functioning of the enlarged internal market and the full implementation of the *acquis* are crucial in this context.

Particular emphasis should be placed on:

- industrial policy, whether in terms of the manufacturing or services industry. Services now account for two-thirds of GDP and the majority of jobs created in the Union; they constitute the sector where the scope for higher productivity and further job creation is greatest and help to maintain a solid industrial base;
- reducing the persistent gap between Europe and its main partners in terms of the effort put into research and the development of human and technological capital (including information and communication technologies, information society, lifelong learning and Erasmus Mundus);
- reinforcement of consumers' confidence in the field of transborder transactions and electronic trade;
- reducing disparities within the enlarged Union: an underlying effective cohesion policy will be essential for closing the gap and helping to boost the potential for growth.

Competitiveness and Cohesion: key initiatives for 2005

The following key initiatives have been selected:

- Promote better economic governance and strengthen the capacity for monitoring the macroeconomic and fiscal situation.
- Develop and implement mature projects identified in the Growth Initiative, especially through extension of the trans-European networks and efforts put into research and the development of human and technological capital.
- Elaborate a new social policy agenda for the post-2006 period.
- Place particular emphasis on controlling state aid in the enlarged Union.
- Present a legislative proposal to enforce the principle of mutual recognition in the area of goods.

- Put forward a proposal on redress in the field of public procurement.
- In the services sector, prioritise the rapid adoption of the proposed Directive on services by the co-legislators and step up the bilateral negotiations aimed at fostering access by European service companies to third-country markets.
- In the financial services field, put forward three legislative proposals: on clearing and settlement, on solvency of insurance companies, and on shareholder rights in stock market listed companies.
- Put forward new legislative proposals on corporate taxation within the enlarged internal market, aimed at removing the tax obstacles to cross-border activities, and simplifying the VAT-related provisions.
- In the defence field, put forward legislative proposals on intra-Community transfers and public procurement tenders.
- Launch the development and implementation of new air traffic management systems, which will support the modernisation of the sector within the framework of the Single Sky initiative.
- Propose reinforced financing of TEN for energy and transport and the creation of a European guarantee instrument to allow the mobilisation of public and private investments in favour of concrete projects.
- Put forward proposals on interaction between industrial policy and other Community policies, and how these policies can contribute to enhanced competitiveness. In-depth analysis of the ICT, defence and raw materials sectors, followed by concrete proposals for measures to improve their competitiveness.
- Put forward proposals to improve and simplify legislation in key industrial sectors, thereby strengthening their competitiveness (e.g. cars, construction products, cosmetics), and proposals to further implement and review the policy in favour of the Information Society (legal framework for electronic communications; eEurope initiative).
- In the field of European contract law, carry on the preparatory work for the common frame of reference.
- Adopt proposals for the seventh Framework Programme for research and technological development.
- Promote the European Space Programme.
- In the field of environment, propose an overall approach towards thematic strategies (air quality, sustainable use and management of resources, marine environment, and urban environment) as well as integrated solutions (including legislative proposals).

3.2. Security and European Citizenship

The European Union must manage a land border of 6 000 km and a sea border of 85 000 km. The total of third-country nationals living in the EU exceeds 14 million, while around 1.5 million are arriving each year. Moreover, enlargement will accentuate the diversity of cultures and peoples, and will present a new challenge in the form of European citizenship as a new EU dimension.

Enlargement of the Union's territory and the increased population will require a greater effort and better coordination from the point of view of managing the new common borders, dealing with the increased mobility of individuals within this area and the need to ensure their security. In this field, the Commission has taken steps to create a European area of freedom, security and justice in accordance with the instructions given by the Tampere European Council in October 1999. This strategy will enter a second phase in 2005.

Moreover, for the purpose of protecting Europe's citizens from risks associated with natural disasters and environmental or epidemiological crises, the Union is being called upon more and more to assist or take over from the Member States when problems assume a pan-European dimension. To this end, the Commission manages a large number of programmes geared to protection, safety, public health, food safety, prevention and control, together with solidarity and crisis management funds.

In 2005, it is proposed:

- to consolidate a European area of freedom, security and justice, started under the Tampere programme, entailing the adoption of additional legislative instruments. The main issues to be addressed will include asylum and immigration, the fight against organised crime and terrorism;
- to focus on consolidating the right of everyone to protection (from natural or environmental disasters - through the enhancement and extension of the civil protection response capacity in the enlarged Union- and crises relating to health or nuclear energy) and access to basic public services (health, food safety, education, transport, consumer safety and a clean and healthy environment);
- to promote initiatives bringing Europe closer to its citizens.

Security and European Citizenship : key initiatives for 2005

The following key initiatives have been selected:

- Preparation of the second phase of the Common Asylum System (including implementation of European Refugee Fund II).
- Strengthening common visa policy and security of travel documents (including biometrics): Implementation of VIS (Visa Information System) following adoption of the legal act by the Council and coordination of design and development of SIS II (Schengen Information System).
- Enhancing the role and capabilities of the European Police College (CEPOL) in the training of senior EU police officers, in particular by transforming CEPOL into a body of the European Union.

- Establishing a genuine European area of justice in civil matters, including the further development of the European Judicial Network in civil and commercial matters.
- Establishing a genuine European area of justice in criminal matters, including the adoption of common definitions of offences and sanctions for serious forms of crime, and development of the project “Erasmus for Judges”.
- Launching the new Action Plan on Drugs.
- Launch of new initiatives concerning the management of citizens’ electronic identity, in order to tackle the likely intrusiveness of information society technologies on privacy, confidentiality and intimacy.
- Propose an amendment to the Council Regulation on the control of trade in dual-use items, in order to maximise its effectiveness within the enlarged Union.
- Improve controls and supervision efficiency at the external border of the enlarged Union.
- Promote measures fostering security research (with a view to establishing a comprehensive programme for enhancing European security through research and technology).
- Improve maritime safety by monitoring the prohibition of emptying tanks out at sea.
- Propose legislation on a Community framework for the safety of services provided to consumers.
- Extend the health information systems, alignment of preparedness for disease threat, application of Standard Operational Practices for early warning systems.
- Ensure food safety and phytosanitary controls as well as harmonised verification of the health of imported animals and the safety of imported food and feed.
- Ensure through a network of Community Reference Laboratories a harmonised approach in testing and control of chemical and biological contaminants.
- Implement a new framework for labelling of feed and extend the existing rapid alert system for food and feed to non-EU countries.
- Modify the Directive Television Without Frontiers.
- Negotiate an international convention on cultural diversity under the UNESCO framework.

3.3. External responsibility: Neighbourhood and Partnership

The Union's new dimension and the new external borders resulting from enlargement will make it necessary to put in place a stable, comprehensive political framework with the neighbouring countries of the south and the east. Once enlargement becomes a reality, the implementation of this second sphere of prosperity and stability will be the central external priority.

With this in mind, the Commission will implement a new EU neighbourhood policy and will strive to promote intra-regional cooperation. This new policy is aimed at neighbouring States which are not (with the exception of Western Balkan countries) candidates for EU accession. This approach will be underpinned by a proposal to be presented to the Council in spring 2004, comprising a strategy paper, country-specific reports, proposed action plans and an outline New Neighbourhood Instrument.

As far as the countries of the Western Balkans are concerned, the stabilisation and association process will remain the policy cornerstone.

Furthermore, in 2005, the Commission's external action will be geared to achieving further objectives, namely:

- contributing to the completion of the ongoing enlargement process, entailing preparation for the accession of Romania and Bulgaria. In addition, and in the light of decisions taken in 2004, the Commission will continue implementing the pre-accession strategy with Turkey and might enter into an active phase of negotiation with Croatia;
- the enlarged Union can and must assume greater global responsibility. The Commission will be required to play a greater role in promoting sustainable development in line with Europe's international commitments, including the Millennium Development Goals, which will need to be reviewed in 2005. The Union's integrated commercial policy and its vital role in promoting development will lead it to take on greater responsibility in multilateral governance;
- lastly, the Union's expansion will go hand in hand with increased international responsibility and will require even more coherence in its external actions, using all the instruments available. The future Foreign Affairs Minister will have a crucial role to play here. This increased coherence will allow the EU to better address Europe's challenges and threats as set out, inter alia, in the European Security Strategy² and will include the establishment of appropriate crisis-management capacity combining civilian and military means, while ensuring that humanitarian aid remains independent from political considerations.

External responsibility: Neighbourhood & Partnership: key initiatives for 2005

The following key initiatives have been selected:

- Particular emphasis will be placed on the stabilisation and association process with the countries of the Western Balkans. Strengthen the capacity for economic monitoring and advising the countries of the region.

² Endorsed by the European Council in December 2003.

- On the basis of guidelines to be adopted in the spring of 2004, enter into an active phase of neighbourhood policy, especially by means of action plans with a number of the countries concerned, on the basis of shared values in particular democracy, human rights, rule of law and respect of minorities. Create a more productive framework for trade and investment, including rules of origin, at regional level. Step up economic monitoring of the region. Strengthen the regulatory dialogue and promote the development of "ACAAS" (Accreditation and Conformity Assessment Agreements). Extend the Charter for Small Enterprises to these countries.
- Extend the internal energy and transport market to Balkan and Mediterranean countries.
- Take forward the creation of four common spaces with Russia (economic space ; space of freedom, security and justice ; space of co-operation in the field of external security ; space of research and education, including culture) through the development of a joint Action Plan, including and with specific reference to energy matters. This work will need to draw on ongoing positive co-operation in specific fields (e.g. approximation of legislation in the customs field).
- Conclude trade negotiations with Mercosur.
- Strengthen the Union's relations with Gulf countries, especially Iran, and seek to conclude negotiations with the Gulf Cooperation Council.
- Ensure the Union's contribution to the reconstruction process in Iraq.
- Extend and implement international fishery agreements, in particular with Russia and Libya.
- Review and scaling up of the EU contribution to the Millennium Development Goals.
- Support African efforts to ensure peace and stability on the African continent, and to make the Peace Facility for Africa operational.
- Launch an EU Water Facility to implement the EU Water Initiative proposed at the Johannesburg Summit (2002).
- Ensure the Union's role as a key contributor in the UN World Summit on Information Society II to be held in Tunis in November 2005.
- Present to the Council a revised regulation on the rapid reaction mechanism with a view to making it more effective in times of crisis. Increase Europe's capacity against weapons of mass destructions and towards destructions of post-conflict conventional stocks.
- In the interest of better international governance, promote the development of regulatory dialogue for financial markets, data protection and vocational qualifications.

4. SELECTION OF INITIATIVES FOR EXTENDED IMPACT ASSESSMENT

The Commission's Communication of 5 June 2002 on Impact Assessment³ introduced a *new integrated procedure for impact assessment* of all its major proposals, i.e. those presented in the Annual Policy Strategy or the annual Legislative and Work Programme. The objective of the new procedure is to improve the quality and coherence of the policy development process and to increase transparency and communication with Europe's citizens on the expected impact of Europe-wide initiatives and legislation. This new procedure integrates, streamlines and replaces all existing separate impact assessments previously used in the analysis of Commission proposals.

The selection of proposals for extended impact assessment is one part of the Commission planning and programming cycle. The Commission decides in the Annual Policy Strategy or at the latest in its annual Legislative and Work Programme which proposals should undergo an extended impact assessment. In deciding, it takes the following criteria into account:

- Whether the proposal will have a substantial economic, environmental and/or social impact on a specific sector or several sectors;
- Whether the proposal will have a significant impact on major interested parties;
- Whether the proposal represents a major policy reform in one or several sectors.

2003 was the first year of implementation for the new impact assessments that have been prepared for several major and cross-cutting proposals. In 2004, the Commission departments will progressively extend the use of impact assessments with the aim of **making it common practice in 2005**, covering major policy-defining/pre-legislative documents and all legislative proposals with a significant economic, social and/or environmental impact listed in the Commission's legislative and work programme. The impact assessment of Commission proposals should be proportionate and the depth of the analysis should correspond to the significance of the impacts.

5. GENERAL FRAMEWORK FOR HUMAN AND FINANCIAL RESOURCES FOR 2005

5.1. Human resources

5.1.1. *Enlargement-related reinforcement*

In its Communication "Activities and human resources of the Commission in the enlarged European Union"⁴, the Commission estimated that extending its work to the new Member States would, once the whole operation was fully up and running (in 2008), imperatively require the recruitment of 3 900 additional members of staff⁵. This increase ought to occur between 2004 and 2008 in line with the financial perspective adjustments for an enlarged Community.

³ COM(2002) 276 final.

⁴ Communication of 5 June 2002, COM(2002) 311 final.

⁵ This corresponds to an increase of 3 400 officials on the operating budget, 560 external staff and 150 research posts. On the other hand, provision is made for a reduction of the equivalent of 210 external staff financed from the pre-accession programmes.

In the context of the APS 2005 exercise, the Commission intends to make it clear that this request for 3 900 persons is crucial for the functioning of the enlarged Union. In this respect the Commission acknowledges the fact that its requests up to now have been satisfied by the Budgetary Authority. Nonetheless, the Commission underlines the importance of the outstanding requests for posts up to 2008 and asks the Budgetary Authority to endorse this pledge in order to enable the Commission to fulfil its institutional responsibilities in the context of enlargement.

Following the request for 1280 posts made in 2004, another important frontloading of human resources would have been necessary in 2005 in order to insure the proper functioning of the enlarged Union and the full application of the policies and rules within all the Member States. However, in the light of the current budgetary constraints, the request in 2005 is for a limited net increase of 700 posts related to the Union's enlargement.

The recruitment of these 700 people constitutes, for 2005, the indispensable basis for carrying forward the management and supervision of Community programmes, and for implementing the *acquis communautaire* within the enlarged Union. The Commission will use these new resources to deal with the extension of its tasks following enlargement and to pursue the three policy priorities of the enlarged Union ("competitiveness and cohesion", "security and European citizenship" and "external responsibility: neighbourhood and partnership"), with the ten new Member States being fully involved in this work.

The slower, more gradual build-up of these new human resources, linked to the fact that almost half of them will be dedicated to the language services, will negatively impact on the Commission capacity to meet its institutional obligations.

The language services will indeed be given the necessary staff and financial resources⁶ to provide quality services in the new languages, with due regard also to the overall constraints mentioned above. The Commission intends to give thought to the most appropriate ways of strengthening the capacity of these services to satisfy steadily increasing demands in the future.

The initiatives taken by the Commission for promoting better economic governance will also require the allocation of extra human resources to this policy sphere, but the restrictions imposed in 2005 prevent this requirement from being fully satisfied.

The Commission intends to give thought to the general organisation of its internal audit activity, so as to improve coordination between departments, make them more independent and, through a process of interaction, strengthen the overall audit capability. Based on currently available resources, the Commission's Internal Auditor cannot fully comply with his mission concerning the audit of Community Agencies.

The Commission notes, lastly, that the proposed creation of a European Administration School will go some way to facilitating integration of new officials. The School will be allocated resources by the participating institutions but will also be reinforced on a net basis as provided for in this communication, in a manner commensurate with the accomplishment of its tasks in an enlarged Union.

⁶ up to EUR 10 million over the period in accordance with the communication 2003-08 on the medium term staffing needs for enlargement.

5.1.2. Contribution to a central pool

Beyond these 700 posts, the Commission must mobilise additional resources to implement the priority initiatives in 2005. It proposes to do so by way of redeployment within and between departments. This will cover initiatives corresponding to the three priorities where they are independent of enlargement.

Consequently, as in previous years, it is proposed that a central redeployment pool be set up, drawing generally upon all staff. The Commission departments have already contributed in large numbers to various major internal redeployment exercises, and the contributions sought in 2005 for a central pool serving the three priorities of the enlarged Union will accordingly be limited to a small percentage (between 0.85% and 1% of operational staff), adjusted to take account of the internal redeployment effort of each DG.

In this connection, any savings resulting from externalisation (generally entailing restoration of posts) will have to be redirected towards the priority policy objectives.

In addition, identifying negative priorities and other ways in which staff may be re-assigned to tasks linked to priority needs (restructuring, review of decision-making and management processes, a better balance between horizontal and operational activities, etc.) will be regarded as a fundamental element in justifying any request for new resources.

5.1.3. Total human resources available for the three priorities

On the basis of the key initiatives identified, the following policy areas will be mainly targeted:

- As regards the “competitiveness and cohesion” priority: economic and financial affairs, enterprise, agriculture and fisheries, regional policy, internal market, employment and social affairs, environment, health and consumers protection, information society, research, transport and energy, taxation and customs union;
- As regards the “security and European citizenship” priority: justice and home affairs, health and consumer protection, education and culture, transport and energy;
- As regards the “external responsibility: neighbourhood and partnership” priority: external relations, trade, justice and home affairs, taxation and customs union.

The table below summarises the human resources which are expected to be needed for launching new initiatives or reinforcing ongoing activities, by priority and according to source.

APS priorities in 2005	New human resources related to enlargement	Redeployment between departments	Redeployment within departments	Total human resources available for the priorities
1. Competitiveness and Cohesion	255	70	145	470
2. Security and European Citizenship	92	46	40	178
3. External responsibility: Neighbourhood & Partnership	6	69	41	116
Extension of existing activities in an enlarged Union (including phasing-out of pre-accession activities)	347	0	161	508
TOTAL	700	185	387	1272

The allocation of new enlargement-related resources by policy area will be finalised during the preparation of the 2005 preliminary draft budget, including the breakdown between establishment posts and external personnel. Confirmation of the request for 700 new posts in the PDB presupposes resolution of the heading 5 financing problem described in the relevant section of the communication.

5.1.4. *Reallocation of resources freed by externalisation of activities*

The White Paper on reform⁷ states that externalisation is one way of implementing the strategy to refocus the Commission on its core tasks and policy priorities. It ought thus to free resources which will be reallocated to support the priorities identified by the Commission.⁸

As stated in the Council Regulation on executive agencies⁹, the posts of officials seconded to an agency by the Commission will not be filled during the period in question and the budget of the Commission will be calculated on the basis of the posts vacant. The Regulation also confirms the possibility of reallocating the administrative resources freed by transferring tasks from Commission departments to an executive agency. The Commission must then inform the Budgetary Authority, under the budgetary procedure, and justify the reallocation of these

⁷ COM(2000) 200 of 1 March 2000.

⁸ See points 1 and 7 of the Report of the Planning and Coordination Group on Externalisation. "Externalisation of programme management" of 15 May 2000 - SEC(2000) 823/2 and point 3 of the Memorandum from the President "Matching the Commission's activities with its human resources – The means to achieve our objectives" of 25 July 2000 – SEC(2000) 2000/2.

⁹ Regulation (EC) No 58/2003 of 19 December 2002 – OJ L 11, 16.1.2003, p. 1.

resources in line with the decision on the APS, which constitutes the integrated framework for setting the priorities and allocating the resources of the Commission.

Two executive agencies are due to be set up in 2004. The TREN executive agency, on which a decision has already been taken, will be responsible for implementing the Intelligent Energy for Europe programme, allowing for the reallocation of a total of eight posts by 2005. The creation and impact, in terms of reallocation, of the SANCO agency for managing the public health programme are still being studied. If the agency gets the go-ahead, the human-resource implications will become clear in the course of the annual resource allocation cycle (APS/PDB).

In 2005, DG EAC should have at its disposal an executive agency designed mainly to take the place of the Technical Assistance Offices, with responsibility¹⁰ for implementing the Socrates, Leonardo, Youth and Media Plus programmes.

Should the Commission decide to set up these agencies, it will have to affirm the principle of reallocation of the resources thus freed, on the basis of the cost-benefit analysis required by the Regulation. The reallocated resources must be identified in accordance with the wishes of the Budgetary Authority. This procedure will be reviewed where necessary in the course of the cycle, taking fully into account the priority needs defined in the APS decision and according to the applicable procedures depending on the nature of the agencies (executive or not).

5.1.5. Situation of the Directorates-General in the external relations field

The Commission confirms the need to make proposals for the organisation of the Relex departments for the new Commission and reiterates its intention of drawing up a report which will be prepared under the authority of the Commission President on the most effective way of organising the departments responsible for external relations.

Once the enlargement of the Union has taken place, a number of key dossiers identified by the Commission for 2005 (Neighbourhood policy, Stabilisation and association process with the Western Balkans), whose further progress depends on decisions to be taken in 2004 (pre-accession strategy with Turkey, launch of the process with Croatia), will have to be managed by the reorganised Relex departments.

On the subject of external aid management, the process of deconcentration is widely, and correctly, under way. It is therefore suggested that the activities of DG AIDCO be reconfigured, for appraisal in conjunction with its role within the Relex family.

Moreover, the application of common solutions appears to be necessary for taking certain administrative requirements into account: in respect of personnel, informatics, reform of the accounting system, training, audit and verification, etc.

The aim is therefore to ensure that the APS 2005 decision is consistent for each policy priority, regardless of the future administrative structure responsible for implementing it. Generally speaking, the priority initiatives proposed by the DGs of the Relex family will be served by reallocation within the Relex family.

¹⁰ The agency's exact remit has not yet been determined, nor has the impact on the human resources of DG EAC.

At the same time, any progress made by the Intergovernmental Conference and the administrative underpinning of the Foreign Minister should be taken into consideration for the structure of the Directorates-General operating in the external relations sphere.

5.2. Financial resources

The financial perspective ceilings are fixed at 1999 prices and thus need to be translated into current prices by the application of deflators, in accordance with point 15 of the Interinstitutional Agreement (IIA)¹¹. This technical adjustment is carried out each year by the Commission, in advance of the budgetary procedure, on the basis of the most recent economic forecasts available. Concerning the 2005 procedure, the adjustment was carried out in December 2003¹², and involved a reduction in the applied deflator.

The result is a substantial reduction in the ceilings at current prices of the various headings of the financial perspective. This is a particular problem for headings 3, 4 and 5, where the reductions were of EUR 134 million, 76 million and 94 million respectively. Such decreases in the ceilings have resulted in a very challenging situation in which it has proven necessary to implement reductions in a number of programmed amounts, in order to finance important initiatives, while at the same time leaving a sufficient margin under the heading 3, as required by the IIA. Given the recent agreement between the two arms of the budgetary authority concerning the additional envelopes to be allocated to co-decided programmes following the enlargement of the Union, such reductions, where they have proven necessary, have been limited to amounts relating to programmes that are not co-decided.

Concerning heading 1 “Agriculture”, the provisional estimate for 2005 is EUR 50 754 million, although the amount entered in the PDB 2005 will, in particular, depend on the average EUR-USD exchange rate during the first quarter of 2004.

In regard to heading 2 “Structural Actions”, the expenditure is fully entered into the annual budget in accordance with the IIA, leaving no margin under the ceiling of this financial perspective heading. The expenditure for the new Member States is based on the Copenhagen conclusions.

Expenditure allocated within heading 3 “Internal policies” leaves a margin under the ceiling of EUR 54 million. This is the net result of:

- additional appropriations (EUR 33 million) allocated to new initiatives;
- a number of reductions in programmed amounts. The bulk of these reductions relate to the withdrawal or re-examination of proposals previously tabled (EUR 90 million - see second paragraph of pt. 5.2.4 for details);
- reprogramming of appropriations relating to the Sixth Research Framework Programme (EUR 33 million);
- a marginal reduction, amounting to a total of about EUR 18 million, in non co-decided amounts across a number of policy areas.

¹¹ Interinstitutional Agreement of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure, OJ C 172, 18.6.1999, p. 1. As regards the ceiling for heading 1 and the figure for the Structural Funds in heading 2, a standard deflator, fixed at 2% a year, is applied. As far as the ceilings of the other headings are concerned, a GNI (Gross National Income) deflator is applied.

¹² COM(2003) 785.

Framework, for FP heading 3 resulting from the APS 2005 Decision

(PROVISIONAL FIGURES)

(in Million EUR, at current prices)

Appropriations for commitments	2004 budget ¹³ (EU-25)	2005		
		Fin. Prog.	Δ APS	APS 2005
3. INTERNAL POLICIES				
FP ceiling	8 722,0	9 012,0		9 012,0
Total heading 3	8 683,8	9 065,4	-107,4	8 958,0
<i>Margin</i>	38,2	-53,4	+107,4	54,0

As far as category 4 “External actions” is concerned, the challenging situation is rendered more complex by the financing needs of the European Union’s proposed continued participation in the reconstruction of Iraq (EUR 200 million earmarked for 2005). In order to enable this initiative to be carried out, a thorough examination of potential reductions in programmed amounts has been carried out as required by point 24 of the IIA. From this analysis, it is clear that only a part of this new expenditure can be financed within the expenditure ceiling, without affecting the Union’s current policy stance and policy priorities. The Commission will therefore propose that the remaining needs be financed by making use of the flexibility instrument, as provided for by point 24 of the IIA.

Framework, for FP heading 4 resulting from the APS 2005 Decision

(PROVISIONAL FIGURES)

(in Million EUR, at current prices)

Appropriations for commitments	2004 budget ¹⁴ (EU-25)	2005		
		Fin. Prog.	Δ APS	APS 2005
4. EXTERNAL ACTIONS				
FP ceiling	5 082,0	5 119,0		5 119,0
Total heading 4	5 176,6	5 066,7	+160,2	5 226,9
<i>Margin</i>	-94,6	52,3	-160,2	-107,9

¹³ Budget 2004 + PDAB No 1/04.

¹⁴ Budget 2004 + PDAB No 1/04.

In terms of heading 5 “Administration”, the situation is very difficult. The effect of the evolution of normal expenditure (salaries and current expenditure, such as rent) and the impact of the new posts in 2004, combined with the reduction of EUR 94 million in the current ceiling following the technical adjustment, left a rather substantial negative margin. Thus, in order to allow the request of new posts for all institutions foreseen in 2005 for enlargement, the Commission and other institutions will have to significantly review their current expenditure and investments programming and, if necessary, envisage exceptional measures producing economies on administrative expenditure. Indeed, during the course of the conciliation of 24 November 2003, the Council, European Parliament and European Commission called upon the Secretaries-General of all institutions to provide a reprogramming of administrative expenditure to take account of the new situation regarding the ceiling. The results of this analysis will not be available until the end of February. Should the conclusions indicate that, even with extraordinary economies, it will not be possible to cover the financing of all the new enlargement-related posts programmed for 2005 for the various institutions (e.g. for the European Parliament), then the Commission will review the situation and make appropriate proposals.

Concerning “Pre-accession strategy” (heading 7), no changes are proposed to the previously programmed amounts.

The impact in financial terms of the selected initiatives is summarised in the following tables. The figures provided for each of the policy areas contributing to the three priorities relate to changes vis-à-vis the existing financial programming, and thus reflect the additional financial resources deemed necessary to fulfil the established objectives. The changes displayed in the tables below cover internal policies and external actions.

5.2.1. *Financial implications of priority “Competitiveness and Cohesion”*

Table 1 - Changes in financial resources in comparison with EU-25 financial programming, relating to the priority “competitiveness and cohesion”

Appropriations for commitments (in Million EUR) <i>FP Headings 3 & 4</i>	Competitiveness and Cohesion	
	<i>Indicative changes in Financial Resources</i>	
Policy Area	2005	2006
Enterprise		8,7
Energy and Transport	2,0	10,0
Administration	3,0	
TOTAL	5,0	18,7

Within the transport and energy policy area an amount of EUR 2 million is allocated in 2005 (and EUR 10 million in 2006) to defining the specifications of a European air traffic management system due to be in place by 2015. The project will involve aeronautical

constructors, airports as well as operators from the telecommunications industry and will eventually be carried out by a joint enterprise.

As for the Trans-European Networks (TENs), a legislative proposal is currently with the Council and European Parliament to increase the associated financial envelope by EUR 200 million over the period 2005-2006 as a result of enlargement. This amount is already included in the current financial programming. Mature projects identified in the Growth Initiative could be allocated funds within this increased TEN financial envelope, allowing rapid implementation of a number of clearly identified projects that are ready to be launched, thus contributing to the growth initiative.

For production and dissemination in 20 languages of the public procurement notices published in the Supplement to the Official Journal dedicated to public procurement, appropriations are raised to EUR 32,5 million for 2005 (+ EUR 3 million within the Administration policy area).

Finally, although during the course of the budgetary procedure relating to the 2004 budget, the budgetary authority rejected the preparatory action proposed by the Commission in order to begin preparations for the establishment of the new Chemicals Agency, which is scheduled for 2006, the Commission confirms the necessary preparatory work for this agency and furthermore increases the allocation in 2006 by EUR 8,7 million.

5.2.2. *Financial implications of priority "Security and European Citizenship"*

Table 2 - Changes in financial resources in comparison with EU-25 financial programming, relating to the priority "Security and European citizenship"

Appropriations for commitments (in Million. EUR) <i>FP Headings 3 & 4</i>	Security and European Citizenship	
	<i>Indicative changes in Financial Resources</i>	
Policy Area	2005	2006
Energy and Transport	3,0	6,0
Direct Research	10,0	-3,0
Press and Communication	5,4	4,3
Area of Freedom, Security and Justice	9,7	6,8
TOTAL	28,1	14,1

Under the area of freedom, security and justice, an amount of EUR 1,7 million is allocated in 2005 for the development of secured information and communications facilities for Eurojust. This will include a Virtual Private Network for the transmission of case-related documents.

Within the same policy area, it is proposed to increase to EUR 14,5 million in 2005 (+ EUR 4 million) the appropriations allocated to the development of the Schengen Information System II, following the feasibility study which indicated a spending profile slightly different from the one originally planned.

It is proposed to reinforce this domain by a further EUR 3 million in 2005 to allow the CEPOL (European Police College), dedicated to the training of senior law-enforcement officials, to be converted from its current status as a network of national training institutes into a European legal body as of 2005.

Within the energy and transport policy area, an amount of EUR 2 million is proposed in 2005 for the provision of a satellite surveillance system for maritime vessels, in order to monitor vessels that pollute EU waters thereby enforcing the new regulation which prohibits the emptying of tanks out at sea. As a complement to this¹⁵, EUR 1 million is proposed for 2005 (EUR 2 million in 2006) for a feasibility study and measures for the coordination of EU coastguard services.

Within the area of Direct Research, an additional EUR 10 million will be allocated in 2005 to nuclear decommissioning, raising total appropriations for the year to EUR 37,5 million. This will permit the necessary waste management as well as the transfer to the USA, before 2006, and final disposal of spent fuel elements based on Highly Enriched Uranium of US origin.

It is also proposed to increase the allocation for the press and communication policy area in 2005 by EUR 5,4 million, in particular to take into account the increased need for information outlets following enlargement.

Finally, the Commission confirms the preparatory action on security research proposed in 2004, which for each of the years 2005 and 2006 is allocated an amount of EUR 24 million, as already included in the current financial programming.

5.2.3. *Financial implications of priority "External responsibility: Neighbourhood and Partnership"*

Table 3 - Changes in financial resources in comparison with EU-25 financial programming, relating to the priority " External responsibility : Neighbourhood & Partnership "

Appropriations for commitments (in Million. EUR) <i>FP Headings 3 & 4</i>	External responsibility: Neighbourhood & Partnership
	<i>Indicative changes in Financial Resources</i>
Policy Area	2005
External Relations	200,0
TOTAL	200,0

In the external relations domain, work is to continue on the contribution to the stability, prosperity and democratisation of Iraq. Following the pledge made during the Madrid Ministerial Conference, EUR 200 million has been entered in the EU budget for the 2003-2004 period. It is now proposed to extend the EU contribution in 2005. An amount of EUR 200 million is thus proposed to support the reconstruction and political and economic transition, thereby contributing to the stabilisation of the region.

¹⁵ in response to a proposal made by the European Parliament on 13 January 2004.

The Wider Europe initiative has already involved a substantial upward reprogramming of category 4 appropriations for 2004 to align these with the new strategy relating to this initiative and the 'new neighbours' approach. The budgetary authority confirmed the approach to a large extent, in the context of the 2004 budget, and therefore at this stage only marginal adjustments are necessary.

5.2.4. Other financial implications

A number of reductions have been introduced within heading 3. Some result from changes in circumstances while others are being carried out in order to establish a sufficient margin under the ceiling for the start of the budgetary procedure, as well as allow the financing of the new initiatives mentioned above.

With respect to the original amounts programmed, events have led to reductions in appropriations within the Economic and Financial Affairs policy area, where EUR 25 million originally allocated to the capital increase of the EIF will no longer be disbursed during 2005, and in the Transport and Energy area, where an amendment to increase, for the border regions, the TENs envelope by EUR 100 million (55 million 2005 and 45 million in 2006) has finally been withdrawn by the Commission following lengthy discussions with the Council. In the same policy area, a revision of spending estimates has led to a cut of EUR 10 million in 2005 in the appropriations to be dedicated to anti-pollution measures.

The reductions implemented within category 3 to re-establish the margin in 2005 include EUR 33 million within the research area, for which a front-loading exercise was carried out in 2003, as well as a number of other minor adjustments carried out on a number of policy areas to the financial resources dedicated to non co-decided programmes.

Within category 4, under the Fisheries policy area, appropriations are increased by EUR 6 million to EUR 200 million to enable the renegotiation of three international fisheries agreements together with the financing of a number of new agreements due to be concluded by the end of 2004, provided that the agreements comply with the objective of sustainable and responsible fishing as foreseen by the revised Common Fisheries Policy.¹⁶

A second adjustment under this category, for 2005, relates to reallocation within the External Relations policy area to allow for EUR 13 million to be dedicated to the newly established programme for financial and technical assistance to third countries in the areas of migration and asylum (AENEAS).

¹⁶ If appropriations relating to these fisheries agreements prove insufficient, the Commission will propose appropriate measures as foreseen in the Interinstitutional Agreement of 6 May 1999.