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TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

ON THE ESTABLISHMENT OF A NEW
FINANCIAL PERSPECTIVE FOR THE PERIOD 2000-2006

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INTRODUCTION

In last July's Agenda 2000¹ the Commission proposed a reference financial framework for 2000-06 in anticipation of the enlargement of the European Union. This framework shows that it is possible to provide for the development of the revamped Community policies for the current Member States and, under certain conditions, finance the accession of a number of countries from central and eastern Europe and Cyprus without changing the own resources ceiling of 1.27% of GNP between now and 2006.

This communication has been produced in response to paragraph 25 of the Interinstitutional Agreement of 23 October 1993 on budgetary discipline and improvement of the budgetary procedure, which requires the Commission to present proposals for a new financial perspective before 1 July 1998. The financial perspective determines the general development in the Community budget for the current fifteen Member States and the pre-accession aid for the applicant countries. It must also ensure that resources are available for use in due course to finance accession under the conditions set out in Agenda 2000. The communication thus meets the Luxembourg European Council's call for a clear distinction between the financing intended for the current fifteen Member States and that for the applicant countries both before and after accession.

The financial perspective set out in the communication is consistent with the other proposals presented by the Commission in relation to the common agricultural policy, structural operations, pre-accession aid and the Guarantee Fund for lending operations.

The accompanying report on the implementation and renewal of the 1993 Interinstitutional Agreement shows how useful this instrument is for orderly and controlled growth in Community expenditure in line with the resources provided and as a jointly agreed reference to improve collaboration between the institutions in the course of the annual budgetary procedure. When Agenda 2000 was first discussed, the two arms of the budgetary authority made it clear they wanted this instrument to be retained. The financial perspective is meant to form an integral part of the new Interinstitutional Agreement.

The basic assumptions used for drawing up the financial framework are set out in Part 1, the structure is described in Part 2, Part 3 shows how each heading will change and Part 4 determines the ceilings on total expenditure and the margins available under the own resources ceiling. Finally, Part 5 deals with the programming and financing of the expenditure planned in connection with accession.

¹ Agenda 2000: For a stronger and wider Union, COM(97) 2000 final.

1. BASIC DATA FOR THE NEXT FINANCIAL FRAMEWORK AND THE ECONOMIC ASSUMPTIONS

1.1 Economic background

The Commission has based the next financial perspective on the most recent short-term economic forecasts available, which were presented last November and which were used for the adjustment of the financial perspective for 1999.²

For the period 2000-06 the Commission has applied the same medium-term economic assumptions as in Agenda 2000, viz. a GNP economic growth rate of 2.5% a year and a GNP deflator of 2% a year. In actual fact, the GNP deflator is used only to check the consistency between the expected level of agricultural expenditure, which is evaluated at current prices, and the agricultural guideline.

The most recent developments in the Community economy and the prospects opened up by the move to the third stage of economic and monetary union lend support to the economic assumptions made.

For the applicant countries, the Commission has taken the latest economic forecasts available and applied a medium-term economic growth rate of 4% a year beyond 1999. These forecasts do not affect the financial perspective at present but they will after accession.

Annex A sets out the main economic parameters used.

1.2 The financial perspective at constant 1999 prices

The financial perspective proposed has been drawn up at constant 1999 prices, making comparison easier with the 1999 budget which is now in preparation. The financial perspective ceilings for that year also serve as the starting point for the changes to be expected for the following period. Another advantage of this price base is that it can be used throughout the negotiations.

For this purpose, the amounts initially set out in Agenda 2000 at 1997 prices have been converted into constant 1999 prices by applying the latest deflator, without any change in the proposals contained in that communication. This exercise produced more exact amounts expressed in tens of millions of euros.

² Communication from the Commission to the Council and the European Parliament on the technical adjustment of the financial perspective for 1999 in line with movements in GNP and prices, SEC(98) 306.

1.3 Term of the financial perspective

As in Agenda 2000, the Commission has decided to present a seven-year financial perspective as it feels that a period of this length is needed to assess the full effect of the proposed reforms to Community policies and the impact of the first wave of enlargement.

1.4 Assumptions in connection with enlargement

These proposals are based on the same assumptions as Agenda 2000, viz. the accession of five countries from Central and Eastern Europe and Cyprus as part of an overall, gradual and inclusive enlargement process. As a technical working assumption, this communication supposes that this accession will occur in 2002 and does not prejudge the decisions which will actually be taken.

2. THE STRUCTURE OF THE NEXT FINANCIAL PERSPECTIVE

The main innovation in the next financial framework is that alongside allocations for the current Member States, it also covers expenditure in connection with the enlargement process, both in terms of pre-accession aid and the expenditure resulting from the accession of new Member States. However, a distinction must be made between pre-accession aid, the level of which will already have to be decided at this stage and included in the financial perspective within the limits of the resources available to the current Community, and expenditure resulting from accession, which will not be incorporated in the financial framework until the time of accession by means of an adjustment of the financial perspective. This adjustment will cover both the new requirements resulting from accession and the financing of this expenditure from the resources left available for this purpose in the fifteen-nation Community as well as from the additional resources obtained from the rise in Community GNP as a result of enlargement.

2.1 The current Community

As regards the current Community, the financial framework proposed by the Commission is directly based on the structure of the present financial perspective, which is now well known. The various categories of expenditure are homogeneous and clearly identify the main areas of Community spending. The financial framework will therefore comprise six headings: agriculture, structural operations (divided into two subheadings: the Structural Funds and the Cohesion Fund), internal policies, external action, administrative expenditure and the reserves, divided into three separate subheadings: the monetary reserve, the reserve for emergency aid and the guarantee reserve.

2.2 Pre-accession aid

The Commission has proposed that pre-accession aid be financed from three different headings of the financial perspective. The new beefed-up Phare programme will still come under external action. Two new instruments, proposed elsewhere, would operate in the agricultural and structural sectors and would come under the headings for agriculture and structural operations respectively. This distinction is intended to allow the applicant countries to accustom themselves gradually to Community procedures and practices. A coordinating regulation is also being proposed to provide a clear definition of the objectives of each instrument and to coordinate operations.

The Commission proposes that the amounts intended for pre-accession aid be identified under a specific subheading in each of the three headings concerned. This would guarantee appropriate financing for both the fifteen Member States and the applicant countries and also provide a clearer picture of Community action. Once the first wave of applicants has joined, the level of pre-accession aid will not be changed and will be concentrated on those countries not forming part of the first group.

2.3 Expenditure in connection with accession

Expenditure in connection with the accession of new Member States cannot be entered in the Community's current financial framework. It is, however, covered by specific programming for headings 1, 2, 3 and 5, which would be the common position of the fifteen-nation Community for the forthcoming negotiations. This programming, set out in Table 2, is based on the same guidelines and assumptions as Agenda 2000.

3. CHANGES IN THE VARIOUS HEADINGS OF THE FINANCIAL PERSPECTIVE

The new financial perspective which the Commission proposes for the fifteen-nation Community is set out in Table 1. This table will have to be approved by the two arms of the budgetary authority and annexed to the next Interinstitutional Agreement. It should again be pointed out that the purpose of the financial perspective is to set overall expenditure ceilings for a relatively long period. It is then up to the budgetary authority to decide on the level and breakdown of annual appropriations within this predetermined framework.

3.1 Agriculture (heading 1)

1. The Commission proposes that the ceiling for heading 1 should still be determined by the agricultural guideline. On the basis of the economic forecasts used by the Commission, heading 1 should increase by 1.9% a year in real terms and thus rise by around EUR 6.4 billion from EUR 45.2 billion in 1999 to EUR 51.6 billion (at 1999 prices) in 2006.

However, the Commission proposes a change in the expenditure financed by EAGGF Guarantee and covered by the agricultural guideline. It therefore proposes a review of the regulation on the financing of the CAP and will later present an amendment to the decision on budgetary discipline.³ Apart from expenditure on markets and direct compensatory aid, heading 1 would cover:

- rural development measures, including the existing accompanying measures, and horizontal measures in the fisheries sector;
- veterinary and plant-health measures;
- the agricultural, agri-foodstuff and rural component of pre-accession aid, which would form a separate subheading and be covered by the agricultural guideline.

2. As most of the agricultural intervention measures are fixed in nominal terms, the analysis of expenditure within heading 1, unlike other headings, is presented at current prices, assuming a deflator of 2% a year.

The table in Annex B shows the change in agricultural expenditure at current prices from EUR 40.4 billion in 1999 to EUR 49.4 billion in 2006. This increase of EUR 9 billion would be most pronounced in the early years from 2000 to 2003 and would then level off. This is due, first, to new expenditure of EUR 2.8 billion to be covered under the agricultural guideline in 2000. Second, market expenditure should increase by around EUR 6.2 billion between 2000 and 2003 because of the gradual effect of agricultural policy reform.

The substantial margin which the 1999 budget should leave available beneath the agricultural guideline (around EUR 4.8 billion) would thus be gradually reduced at the start of the period to around EUR 3 billion a year over the period 2001-03. Subsequently, the steady increase in the agricultural guideline and the stabilisation of agricultural spending should produce a growing margin which should come to EUR 9.7 billion by 2006.

The existence of this substantial margin at the end of the period will be welcome. First, it should provide cover for the enlargement-related costs without it being necessary to increase the agricultural guideline at the time of accession. The Commission also feels that a large margin is needed to accommodate agricultural market uncertainties. It should also allow the transitional arrangements applied to the new Member States to be terminated when necessary. The Commission therefore considers that the heading 1 ceiling does not have to be revised at this stage but could be reviewed before 2005. The Commission will contact the budgetary authority at the appropriate moment in accordance with the Interinstitutional Agreement.

³ Council Decision 94/729/EC of 31 October 1994 on budgetary discipline (OJ L 293, 12.11.1994).

3. The expenditure covered by heading 1 of the financial perspective should develop as follows over the period:

- Market expenditure under the reformed agricultural policy should increase from EUR 37.8 billion in 1999 to EUR 43.7 billion in 2006 according to estimates based on the latest trends on the agricultural markets. This increase in expenditure, partly due to the effect of the reforms proposed for arable crops, milk and beef, should extend over 2001-03 as the impact of agricultural policy reform is felt before levelling off after 2003.

Export refunds and market intervention measures will fall by around EUR 4.8 billion as a result of the reform (EUR 1.6 billion for cereals, EUR 1.6 billion for beef and veal, EUR 1.1 billion for the milk sector and EUR 0.5 billion for other sectors where expenditure is indirectly linked with the reformed market organisations) as Community prices swing into line with world prices. Agricultural policy reform should also lead to an increase of around EUR 8.2 billion in direct compensatory aid (EUR 1.6 billion for cereals, EUR 3.6 billion for beef and veal and EUR 3 billion for the milk sector).

The main differences in relation to the proposals in Agenda 2000 are that the premium for silage grain is retained, a further cut has been made in the price of milk, milk quotas are increased and the premium for steers has been reduced.

- The reform of the common agricultural policy will be accompanied by a beefed-up rural development policy as the upcoming changes on the agricultural markets will also affect the future of rural economies.

Under heading 1, this new rural development policy will group together the accompanying measures introduced in the 1992 reform (afforestation, early retirement and agri-environmental measures), aid to less-favoured areas under objective 5a of the Structural Funds (including operations of this type in objective 1 regions) and other existing EAGGF Guidance operations under objectives 5a and 5b (outside objective 1 regions).

However, operations of this type in objective 1 regions, with the exception of the current accompanying measures and aid to less-favoured areas, will be financed under heading 2 of the EAGGF Guidance Section.

The Commission still feels that the Community's rural development instruments should be reorganised and is therefore presenting a new single regulation on EAGGF support for rural development which will apply throughout the Community irrespective of the source of finance.

In the fisheries sector, EAGGF Guarantee would also cover measures to restructure fishing fleets outside objective 1 regions and the other structural measures relating to

fisheries and aquaculture outside objective 1 and 2 regions provided for in the new regulation on structural operations in the fisheries sector.

The allocation for this new rural development accompanying policy and for the measures in the fisheries sector will thus increase from EUR 2.6 billion in 1999 to EUR 4.7 billion in 2000, rising to an estimated EUR 5 billion at the end of the period.

- The veterinary and plant-health measures currently financed from Article B2-510 of the budget under heading 3 of the financial perspective will be transferred to heading 1 as they are closely linked to an agricultural policy concerned with product quality and food safety. Some EUR 100 million a year could be envisaged during the period.
- The agricultural pre-accession instrument will be allocated a constant EUR 520 million a year (1999 prices) throughout the period. The Commission is presenting a proposal for a regulation establishing this agricultural pre-accession instrument which would finance measures to improve farm structures, channels for the processing and marketing of agricultural and fish products, veterinary, plant-health and food quality inspections and integrated rural development measures.

3.2 Structural operations (heading 2)

1. During the next programming period (2000-06) the allocations for structural operations in the fifteen-nation Community would come to around EUR 247 billion, including a total of EUR 7 280 million to finance structural pre-accession aid. This consolidates and even substantially boosts the cohesion effort since the fifteen Member States alone will receive a total allocation of nearly EUR 240 billion, compared with some EUR 208 billion (1999 prices) over the period 1993-99.

In order to concentrate aid under the Structural Funds during the phasing-out period, the allocations for structural operations will fall slightly between 2000 and 2006, dropping by an average of 1.4% a year to EUR 32 470 million in 2006 compared with the base allocation of EUR 35 730 million in 1999.⁴ However, they will still be far higher than at the start of the previous period (around EUR 22 billion in 1993 at 1999 prices).

The Commission proposes three subheadings under heading 2 (Structural operations) for the Structural Funds, the Cohesion Fund and the structural pre-accession instrument. New regulations for these instruments are being proposed.

⁴ This base allocation does not include the EUR 3 294 million not used in earlier years and transferred to 1999 by decisions already adopted and the Commission proposal on the adjustment of the financial perspective to take account of the conditions in which the 1997 budget was implemented (proposal for an adjustment of the financial perspective to take account of the conditions of implementation, presented by the Commission to Parliament and the Council on 25 February 1998, SEC(98) 307 final).

2. *The Structural Funds*

- *Breakdown of the overall allocation*

In view of the efforts still to be made in the objective 1 regions, in particular to develop infrastructures and fight unemployment, it is proposed that the proportion accounted for by this objective should be kept unchanged at around two thirds of the total.

Community initiatives would receive 5% of the resources available for the Structural Funds. A further 0.7% of the Structural Fund allocations would go to innovation schemes carried out on the Commission's initiative to improve the quality of aid under objectives 1 to 3. Finally, 0.3% of the allocation would be used to finance technical assistance.

- *Reduction in the number of objectives*

It is proposed that the current seven objectives be cut to three - two regional and one horizontal. Objective 1 will be for regions lagging behind in their development, the new objective 2 for regions undergoing economic and social conversion and the new objective 3 for the development of human resources outside the regions eligible for objectives 1 and 2.

Various measures currently financed from the Structural Funds at a cost of some EUR 2 billion would no longer be covered by heading 2 since it is proposed that in future similar measures be financed from the EAGGF - Guarantee Section under the agricultural guideline. This concerns the whole of agricultural objective 5a (outside objective 1 regions), aid to less-favoured areas in objective 1 (and 6) regions, EAGGF Guidance operations in current objective 5b regions and certain objective 5a - fisheries operations, namely restructuring of fishing fleets (outside objective 1 regions) and the other structural measures connected with fisheries and aquaculture (outside objective 1 and 2 regions).

- *Geographical concentration of assistance*

The Commission is proposing a gradual phasing-out of the regions which no longer meet the eligibility criteria for objective 1 and the new objective 2. The regions concerned will be covered by a transitional scheme of six years for objective 1 (seven years if they satisfy the criteria for objective 2 in 1999) and four years for objective 2.

The population eligible for objective 1 would thus be cut to around 20% of the population of the European Union instead of the 25% at present. However, assistance to the regions still eligible could be boosted and they should also receive the EAGGF Guarantee-financed aid for less-favoured areas under heading 1.

Similarly, the new objective 2 should cover no more than 18% of the population of the European Union (excluding the areas in objective 1 regions which would be covered by objective 2 at the end of the phasing-out period). However, the regions eligible for

objective 2 would receive more funds since the development of human resources would be financed under this objective instead of objective 3 as at present. These regions could also receive EAGGF Guarantee aid for less-favoured areas under heading 1 and benefit from the other rural development measures under a single programming framework.

- *Changes in Structural Fund allocations*

Structural Fund allocations would thus come to EUR 28 430 million in 2006, an average of 2% a year lower than the base allocation of EUR 32 730 for 1999. Since EAGGF Guarantee will be taking over the financing of some measures from the Structural Funds, the annual average fall would be around 1% a year if the situation remained unchanged.

3. *Cohesion Fund*

The Cohesion Fund, which helps to finance environment and transport infrastructure projects, will be kept unchanged. Its allocation will remain fixed at EUR 3 billion over the whole period.

Member States will be eligible if their per capita GNP is lower than 90% of the Community average, irrespective of whether or not they join the third stage of economic and monetary union. Eligibility for this criterion will be subject to a mid-term review.

The macro-economic conditions will be retained: a convergence programme will have to be introduced for any Member State not joining the third stage of economic and monetary union and those Member States taking part will have to present a stability programme to the Council.

4. *The structural pre-accession instrument*

The structural pre-accession instrument will be allocated EUR 1 040 million a year throughout the period. This instrument is intended to part-finance projects in two sectors:

- transport infrastructure projects, in particular for the trans-European networks;
- environmental projects to bring the recipient countries into line with the Community's environmental legislation.

3.3 Internal policies (heading 3)

1. The total allocation for internal policies will gradually increase by an average of 2.5% a year from EUR 6 390 million in 1999 to EUR 7 600 million in 2006.

The Commission does not propose raising the ceiling for this heading in 2000 in view of the margin which the 1999 budget will probably leave beneath this ceiling. After 2000 the Commission proposes gradually raising the ceiling by just over EUR 1.2 billion, comparable to what the Edinburgh European Council decided for an equivalent period.

2. Heading 3 will have the highest rate of increase in the new financial perspective, reflecting the priority which the Commission intends to give internal policies in view of the contribution they can make to growth and employment. This development of internal policies would also go hand in hand with market integration, which should advance considerably with the transition to the third stage of Economic and Monetary Union.

The measure essential for the smooth operation of the internal market, for which Community assistance is of general interest, will remain a Community priority and should be continued in future. The financing of operations now coming under justice and home affairs will without doubt deserve particular attention as some of them are incorporated in the first pillar as a result of the Amsterdam Treaty and in view of the principle, also embodied in that Treaty, that the Community, unless it is decided otherwise, should finance operations which still come under the third pillar.

3. The increased allocations for heading 3 should be accompanied by a boost to the effectiveness of the internal policies. In strict compliance with the principle of subsidiarity, funding should not therefore be dispersed among too many programmes since some might not be large enough to have a significant impact, in particular in an enlarged Community, and would demand a management effort out of all proportion to the benefits expected. The methods for managing the various programmes will doubtless have to be changed and the proliferation of small budget headings avoided. In particular, the priorities of Community action must be clearly stated and increases in budget allocations must be targeted.

In this desire for greater concentration, the Commission set out five major priorities for the financing of internal policies in Agenda 2000: trans-European networks, research and innovation, education and training, introduction of environment-friendly technologies and measures to support smaller businesses.

4. These priorities were based on the dual criteria of the direct or indirect contribution they could make to employment and Community value added level in the light of external effects or economies of scale. Coordination measures alone soon reveal their limitations if they are not backed by an adequate contribution from the Community budget to create a catalyst effect.

Trans-European networks

Community spending on the trans-European transport, energy and telecommunications networks, which is still low compared with what is at stake, should increase substantially during the coming period. The Commission is therefore presenting the new Financial Regulation for the trans-European networks at the same time. Most of the allocations will go to the transport networks.

The *trans-European transport networks* make an enormous contribution to growth and employment: apart from directly creating the jobs needed to build them, they make trade easier and thus enhance the effectiveness of the single market. They are also important vehicles for applying new technologies, directly exploiting research results. In future, assistance should still be concentrated on a limited number of projects and as much use as possible should be made of partnerships between the private and public sectors.

Financial requirements should rise appreciably in future since only three or four of the fourteen priority projects selected at the Essen European Council will have been completed by the time the next financial perspective starts. However, most of them will pass from the preliminary stage of feasibility studies to the active phase of construction, requiring a higher Community funding contribution in the form of subsidies or interest relief: while the average rate of Community funding has remained rather low during the current period (around 4 to 5% of the investment carried out), it should tend towards 10% so that the Community can play an effective role in putting together funding packages.

In addition to the fourteen priority projects, other major projects which had already been identified could be given priority status in future. At the same time, intelligent transport technology, which will make for more efficient use of existing infrastructure, in particular in traffic management systems, will move from the pilot-project stage to actual implementation. For those which have implications at European level, such as navigation satellites or the rail traffic management system, significant Community funding will be required.

There is therefore a case for an appreciable boost to allocations, given the proposed increase in the rate of Community assistance combined with the faster rate of total investment for the fourteen priority projects (an expected increase of around 50% in nominal terms in relation to 1995-99) as well as the need for additional funds for other major projects and the traffic management projects.

The projects involving *trans-European energy and telecommunications networks* should also move into a higher gear.

- The purpose of the trans-European energy networks is to integrate gas and electricity networks. Their completion will maximise energy supply in relation to demand and thus contribute to the objective of sustainable development.
- The spread of information technology satisfies not only economic but also social needs. The prime importance of investment in this field is no longer limited to sectors

directly involved in information technology but also has a decisive effect on a large number of sectors which use this technology, making it an essential feature of competitiveness.

In view of technological development, assistance for trans-European telecommunications networks, designed initially in 1995 around Euro-ISDN, will be expanded and focused on three new main priorities: basic networks, in particular satellite networks and mobile networks, to carry new multimedia applications; generic services based on the Internet to ensure that a maximum of small businesses have access to Intranet and Extranet services with appropriate security arrangements to allow the development of electronic commerce; the development of computer services of general interest (education, medicine, etc.). The aim of Community operations will be to guarantee interoperability of these networks and services at European level.

In view of these objectives, trans-European networks can be expected to account for a growing proportion of heading 3 allocations during the period.

Research and innovation

In today's society, the production and exploitation of new knowledge is more decisive than ever before for industrial competitiveness and, consequently, for economic growth and employment. It also has a direct effect on the quality of life in several sectors (communications, transport, energy, health, environment, etc.). However, expenditure on R&D represents only 1.8% of European GDP as against 2.4% in the United States and 2.9% in Japan. While our main competitors are making substantial investments, Europe must boost its research effort and improve coordination.

Under the research framework programme, projects can be carried out more effectively at European Union level for reasons of cost, the range of expertise necessary, the pan-European dimension of problems or their links with the development of the internal market. The experience gained in recent years has already stimulated hundreds of cross-frontier cooperation networks embracing thousands of laboratories in both the public and private sectors and tens of thousands of researchers, thus boosting the technological capacity of many firms. While the Community's share of all research expenditure in the European Union did not exceed 4% in 1996, it is estimated that around 8% of all R&D personnel in the Member States are involved in projects receiving finance under the framework programme. This shows the catalyst effect of Community research policy.

As the Commission already proposed in the fifth research framework programme,⁵ the Community must try to concentrate its efforts on a limited number of topics and place the

⁵ Proposal of 30 April 1997 for a European Parliament and Council Decision concerning the 5th Framework Programme of the European Community for research, technological development and demonstration activities (1998-2002), COM(97) 142 final, OJ C 173, 7.6.1997, p. 10, as amended on 11 August 1997 by COM(97) 439 final, OJ C 291, 25.9.1997, p. 15, and on 14 January 1998 by COM(98) 8 final.

emphasis on the exploitation of results and the transfer of technology within the European Union. This requires an increase in allocations to reach a critical mass. The proportion of heading 3 allocations devoted to research should therefore at least be kept at the proportion accounted for by the fourth research framework programme.

Education and training

Last November the Commission presented a communication entitled "Towards a Europe of knowledge"⁶ in which it underlined the growing importance of developing knowledge in Europe since in future this will more than ever be the key to the competitiveness of industry, the level of employment and the quality of life. The new programmes for education, training and youth will have three essential objectives: using the possibilities offered by European cooperation to enhance lifelong learning, developing the skills and abilities required in a society based on globalisation of knowledge and enhancing European citizenship by means of a European educational area.

This will be done by:

- increasing the mobility of students, schoolchildren, apprentices, young voluntary workers, teachers and instructors by doubling the number of available places in programmes such as ERASMUS, COMENIUS, LEONARDO or Voluntary Service;
- using the resources of the information society to provide easy access to multimedia-based education and training methods;
- encouraging virtual mobility by setting up networks between schools, universities, training centres and youth projects;
- promoting language skills and the understanding of different cultures in order to encourage the broadest possible participation of European citizens in a multilingual European Union;
- developing innovation through European pilot projects which could act as a catalyst or testing grounds for new approaches to education and training;
- promoting the exchange of experience and knowhow and thus establishing European-level reference criteria for education.

Resources will have to be concentrated on a limited number of measures and implementation must be simplified, especially as these programmes are also likely to

Proposal of 30 April 1997 for a Council Decision concerning the 5th Framework Programme of the European Atomic Energy Community (Euratom) for research and training activities (1998-2002), COM(97) 142 final, OJ C 173, 7.6.1997, p. 30, as amended on 11 August 1997 by COM(97) 439 final, OJ C 291, 25.9.1997, p. 16, and on 14 January 1998 by COM(98) 8 final.

⁶ Communication of 12 November 1997 from the Commission to the Council; the European Parliament, the Economic and Social Committee and the Committee of the Regions - Towards a Europe of knowledge, COM(97) 563 final.

attract a growing number of non-member countries as part of the policy leading up to accession. To attain these objectives the proportion of heading 3 allocations devoted to education and training should therefore be increased above the 1999 level.

Introduction of environment-friendly technologies

Greater importance will have to be attached to environment policy in future in response to public concern and the development of consumption and production systems. This was confirmed by the Amsterdam Treaty which included the concept of sustainable development among the Community objective.

Although environment policy has a role to play in all Community policies, special emphasis should also be given to the promotion and introduction of environment-friendly technologies. This would mean beefing up measures in this field under the LIFE programme: innovative and demonstration actions designed to implement Community legislation and technical assistance to local authorities. Particular targets could be clean production processes in those sectors responsible for most pollution, new processes for treating pollution and industrial waste and procedures for recycling household waste. Although this is not the prime objective, the introduction of these new environment-friendly technologies could lead to new jobs.

Measures to support small businesses

The central role played by small business in the development of the European economy and employment is not disputed. The objective of European programmes relating to small businesses is to allow them to exploit the full potential of the single market and operate more effectively at European level through the dissemination of information and experience as well as access to Community programmes and sources of European finance such as the EIB or the European Investment Fund. More particularly the development of financial engineering for small businesses will be a major aspect of the initiatives for growth and employment. Apart from continuing existing measures, the next multiannual programme for small businesses will pay specific attention to the smallest firms and seek to provide businessmen with all the capacity they need to set up and run a small firm at European level.

3.4 External action (heading 4)

1. The overall allocation for external action will gradually rise from EUR 6 870 million in 1999 to EUR 7 900 million in 2006, an average increase of around 2% a year. This overall ceiling will also cover the allocations to finance the pre-accession strategy through the PHARE programme, which will be isolated in a subheading with a constant amount of EUR 1 560 million a year over the entire period. These ceilings will not come up for adjustment at the time of enlargement.

As is the case with heading 3, the Commission can see no need for raising the heading 4 ceiling for the year 2000 in view of the large margin that the 1999 budget will, in all likelihood, leave available beneath the ceiling. For the remainder of the period the Commission is proposing a gradual increase of around EUR 1 billion for the heading, an amount representing about half the increase set by the Edinburgh European Council (1999 prices) for the same length of time. This higher ceiling for heading 4 should cover needs already announced by the Commission and also make it possible to give priority to stepping up cooperation with certain regions of the world.

The ceiling proposed for heading 4 does not allow for the entry of the European Development Fund in the budget. As the Commission stated in Agenda 2000, the question of the incorporation in the Community budget of development cooperation with the countries of Africa, the Caribbean and the Pacific may have to be addressed by 2005.

2. Proposals resulting from the general balance of the new financial framework will result in an increase in financing requirements under heading 4.

- At the start of the next period allocations for the PHARE programme for countries receiving pre-accession aid will need to be increased by around EUR 200 million in relation to the amount earmarked by the Cannes European Council for 1999.
- The Commission is also proposing that the reserve for emergency aid be cut by around EUR 150 million. This proposal needs to be backed by a corresponding increase for the operational items for financing humanitarian aid in order to preserve the Community's capacity for action in a sector where, as the world's leading humanitarian aid donor, it traditionally has a high profile.

3. In the wake of the Amsterdam Treaty the Union must be in a position to assert its presence even more strongly on the international scene and to optimise budget operations in the twin perspective of economic globalisation and regionalisation.

As the Commission has already stated in Agenda 2000, a number of priorities for coming years can be distinguished.

- First of all, the Community should be in a position, over the coming period, to step up cooperation with its closest neighbours - the Republics of the former Soviet Union, former Yugoslavia, Albania and non-member Mediterranean countries. This need will become even more pressing in the future given the proximity of some of these countries to the applicant countries. The future development of the Community's external action should therefore be viewed today in the perspective of an enlarged Union.
 - Cooperation with the non-member Mediterranean countries will be shaped by the strategy laid down at the November 1995 Barcelona Conference for bringing the two sides closer together and with a view to the subsequent creation of a free-trade

area, which will require structural adjustment in the economies of the countries in the region. The Union should therefore step up its efforts to support the economic and social transition policies being implemented by these countries.

- Turkey will continue to be a beneficiary under the MEDA programme. In addition the special financial cooperation action will have to be implemented or some other aid provided, involving an equivalent amount, under the arrangements for strengthening cooperation with Turkey.
 - Increased support for the Middle East peace process could also be envisaged if political circumstances so demand and allow.
 - The Union recently concluded partnership and cooperation agreements with most of the New Independent States. In parallel with this enlarged cooperation the TACIS programme will have to go on financing technical assistance and its resources will increasingly need to act as a catalyst for financing infrastructure and for supporting investment in small businesses. With a view to an increase in trade, transport networks and environmental protection should also be priorities.
 - The Community will also need to have the financial resources to continue and adjust its cooperation with the countries of former Yugoslavia. This aid will continue to be dependent on compliance with the Dayton principles and will have the threefold target of repairing war damage, economic conversion and establishment of democratic institutions.
- Humanitarian aid and food security will continue to be one of the essential aspects of Community action in the years ahead.

As regards humanitarian aid, simply transferring allocations from the emergency aid reserve to operational headings cannot be interpreted as stepping up Community action. Decentralised management of Community humanitarian aid, based in particular on framework partnership contracts with international organisations and NGOs, has proved its worth. Financial resources will need to be increased if the Community is to be more active in rehabilitation or development operations, hitherto purely ancillary to humanitarian aid, in order to ensure that emergency aid is a lasting success.

- The Community budget will also have to be in a position to provide appropriate and permanent financial support for implementing the common foreign and security policy (CFSP) since the Treaty of Amsterdam has laid down the principle, unless the Council unanimously decides otherwise, that operational expenditure should be financed by the Community. However, as the Commission pointed out in Agenda 2000, the amounts envisaged for heading 4 assumed that there would be no major development of financing requirements in this area, although this does not rule out the possibility that the CFSP will boost expenditure of the same kind under the first pillar.

4. The priorities mentioned above should not be at the expense of cooperation with other parts of the world or other Community external action.

- Cooperation with Asia and Latin America will have to continue on a more regionalised basis. Given the economic development of these two geographical areas in recent years, the development cooperation policy, which should essentially focus on the least advanced countries, should therefore be supported by the strengthening of economic and political cooperation with the various regional groupings to the mutual benefit of all parties.
- Under the common fisheries policy the Community will have to continue taking part in international and regional fisheries organisations and it will have to pursue its policy on fisheries agreements with a shift towards cooperation agreements and an extension of the network of existing agreements.
- The Community will also have to remain active in its work for democracy, human rights, the environment and forests, support for NGOs, health and population and in rehabilitation and mine clearance. However, even though certain horizontal programmes will be maintained, these operations should be incorporated into regionalised cooperation programmes wherever this is judged to be appropriate and feasible in order to enhance the coherence and complementarity of operations conducted in a given geographical area.

3.5 Administrative expenditure (heading 5)

1. The overall allocation for administrative expenditure for a fifteen-member Union will rise from EUR 4 730 million in 1999 to EUR 5 300 million in 2006, an average increase of around 1.7% a year.

As with headings 3 and 4 the Commission is proposing that the heading 5 ceiling remain unchanged in 2000 in view of the margin that the 1999 budget should leave beneath the ceiling. The gradual increase over the rest of the period would be just over EUR 550 million, or three-fifths of the increase agreed by the Edinburgh European Council for the same length of time.

2. Nearly half of this increase will be taken up by the expected sharp rise in expenditure on pensions which, on the basis of available forecasts and assuming no change in the arrangements, will require an additional EUR 260 million by 2006, an average increase of over 6% a year in relation to 1999.

The growth in other expenditure for all the institutions should not therefore exceed 1% a year on average. This will mean that the institutions will have to take a very strict line in managing all items of administrative expenditure.

- Staff numbers should by and large remain at the same level as authorised in 1999. Staff costs would still increase because of changes in category or grade.

The various institutions will have to envisage providing extra staff for certain activities, in particular as a result of the Treaty of Amsterdam. These reinforcements will have to come essentially from internal redeployment of available human resources. Generally speaking, the central functions on which the Commission will have to focus should be identified more clearly.

The Commission also intends to press ahead with the reform of its administration. Greater effectiveness will have to be sought in the management of operational programmes. In particular, in implementing all programmes, care will have to be taken to ensure that projects are of an adequate size in order to avoid excessive management costs.

- The building programmes initiated in recent years by the Council and Parliament are now complete or will be by 1999 and the corresponding expenditure should therefore level off. The additional expenditure under this head, estimated at around EUR 50 million, should concern the following operations:
 - For the Commission, it will mainly concern the return to the Berlaymont and other related operations connected with the reorganisation of the building stock.
 - The Court of Justice will have to renovate and extend its building. The Court of Auditors is also planning an extension.
- Other administrative expenditure will therefore have to remain at the same level in real terms over the entire period.

3.6 Reserves (heading 6)

Monetary reserve

As announced in Agenda 2000 the Commission is proposing that the monetary reserve be gradually abandoned since the reform of the common agricultural policy should radically reduce the proportion of agricultural expenditure accounted for by refunds and hence the influence of variations in the euro/dollar rate on total agricultural expenditure.

As the effects of the reform of the common agricultural policy should not begin to work through until 2001 and will be progressive for the beef and dairy sectors, it is proposed that a similar line be taken for abandoning the monetary reserve. It will remain at its present level of EUR 500 million in current prices in 2000 and 2001, will be reduced to

EUR 250 million in 2002 and eliminated altogether in 2003. This will require an appropriate amendment of the decision on budgetary discipline.

Reserve for emergency aid

As the Commission explained in its report on the operation of the Interinstitutional Agreement, the reserve for emergency aid has proved very useful in responding to urgent humanitarian aid requirements. However, it has not always been used as initially planned. In view of the relatively large amounts it contains, the use to be made of it has already been planned when budgets have been drawn up and operational items have tended to be under-endowed. The reserve for emergency aid should be restored to its original role of coping with genuinely new and unforeseeable requirements.

It should then be possible to reduce the reserve to EUR 200 million a year (1999 prices) by 2000. This will, however, require a corresponding increase in the operational items covered by heading 4.

Reserve for loan guarantees

The purpose of the reserve for loan guarantees is to endow the Guarantee Fund and, as a secondary function, to make direct payments if the Fund does not have sufficient resources. The amount set for the reserve has allowed Community lending activities to develop as required and the Guarantee Fund has reached its target figure of 10% of total guaranteed loan liabilities.

As the Commission states in its report on the functioning of the Guarantee Fund, the Fund has never been called on to provide more than 5% of total liabilities. The Commission has therefore proposed in that report that the provisioning rate be lowered to 6% of new guaranteed loans granted and at the same time the amount of the guarantee reserve be reduced to EUR 150 million (1999 prices) in 2000 while maintaining an equivalent lending capacity.

4. OVERALL FINANCIAL PERSPECTIVE CEILINGS AND MARGINS AVAILABLE BENEATH THE OWN RESOURCES CEILING

4.1. Overall ceiling on appropriations for commitments

The overall ceiling on appropriations for commitments will rise from EUR 103.4 billion in 1999 to EUR 105.2 billion in 2006, an average annual growth rate of 0.2% in real terms, including pre-accession aid. These expenditure ceilings, which represent a very slight increase for a fifteen-member Community, include the total amount of the guideline, which should leave a significant unused margin as long as the Community continues with its present members.

4.2. Determining the overall ceiling on appropriations for payments

1. For the coming period the Commission is proposing that the ceiling on appropriations for payments be raised by an average of 1.2% a year, faster than for the ceiling on appropriations for commitments, even though the payments ceiling remains below the commitments ceiling throughout the period.

After a period of strong growth, appropriations for commitments will tend to level off during the next period. Financing past commitments will therefore become increasingly important for determining the payments ceiling in relation to new commitments in the year. It follows that the gap between the appropriations for commitments ceiling and the appropriation for payments ceiling will gradually narrow during the next period.

The new system of payments and advances in the legislation on the Structural Funds has also been taken into account in determining the ceiling on appropriations for payments.

2. As the rate at which commitments are actually cleared can always differ from what has been theoretically planned, it is important that the next Interinstitutional Agreement retain the procedure for adjustments to take account of the conditions of implementation. This enables the two arms of the budgetary authority, acting on a Commission proposal, to adjust the overall ceiling on appropriations for payments to the actual pace of payments to compensate for any backlog which may have built up during a financial year by catching up at a later date. This operation may require using part of the margin available beneath the own resources ceiling.

4.3. Margins available beneath the own resources ceiling

In the light of these considerations, the ceiling on appropriations for payments should rise, at constant 1999 prices, from EUR 96.4 billion in 1999 to EUR 104.6 billion in 2006. The economic forecasts used by the Commission indicate that this ceiling will represent a percentage of Community GNP that falls from 1.23% in 1999 to 1.13% in 2006 and will therefore leave a substantial margin beneath the own resources ceiling that will gradually increase to 0.14% of GNP in 2006.

With regard to the use which can be made of the margin, from 2002 on a distinction must be made between the margin for unforeseen expenditure and the margin set aside to cover the cost of accession.

In the light of past experience, the Commission believes that the margin for unforeseen expenditure should be 0.03% of Community GNP. The impact of an economic growth rate below what is forecast would have to be covered by this margin. It would also be used to cover the financing of adjustments to take account of conditions of implementation and any revisions of the financial perspective.

The Commission is proposing that the remainder of the margin beneath the own resources ceiling, which will grow gradually from 0.02% of GNP in 2002 to 0.11% in

2006, equivalent to EUR 1.3 billion in 2002, growing to EUR 10.5 billion in 2006 (1999 prices), should remain available for accession in the financial perspective for the fifteen-nation Community.

5. PLANNING AND FINANCING ACCESSION-RELATED EXPENDITURE

5.1. Accession-related expenditure

Table 2 shows the expenditure scheduled in Agenda 2000 for accession. This financial planning links up with the financial perspective agreed for the existing Community by means of the amounts left available for accession. It will be the common negotiating position of the Fifteen.

Heading 1

On the basis of current estimates, expenditure for market measures will amount to between EUR 1.1 billion and EUR 1.4 billion a year at current prices, excluding direct aid. On top of this there will be enhanced accompanying measures, including specific modernisation aid similar to that financed by the pre-accession instrument, the amount of which will rise at current prices from EUR 0.6 billion to EUR 2.5 billion a year. Converted to 1999 prices for the purposes of comparison and to serve as a guide, the overall amount to be provided will rise from EUR 1.6 billion in 2002 to EUR 3.4 billion in 2006.

Heading 2

The new Member States will receive a total allocation of almost EUR 40 billion (1999 prices), rising gradually from EUR 3 750 million in 2002 to EUR 12 080 million in 2006. Current economic forecasts suggest that, with the post-accession increase, the overall ceiling for heading 2 will account for the same percentage of the GNP of the enlarged Community as in 1999.

Heading 3

Many programmes under heading 3 are likely to be greatly affected by accession. This will apply particularly to policies where population or language (such as education and training, culture and information) are the relevant reference criteria and all programmes aimed at ensuring the smooth functioning of the single market (statistics, standardisation, administrative cooperation and inspections). The development of Trans-European networks will also assume a new significance in an enlarged Union, both in the new Member States and in the current Community Member States. Consequently, an average allocation of around EUR 800 million per year will be set aside, which amounts to an increase of about 10% in relation to the Community of Fifteen.

Heading 5

Accession will involve significant additional costs for the institutions, which will depend on the procedures accepted at the accession negotiations. The institutions will have to be able to work in the new languages, cope with an increased volume of tasks and accommodate nationals from the new Member States. By analogy with the previous enlargement, the Commission has assumed an average overall cost of around EUR 400 million, increasing from EUR 370 million at the beginning of the period to EUR 450 million at the end.

5.2. Financing accession

Table 2 shows the appropriations for payments earmarked to cover the cost of accession. They increase progressively as payments have to be made against the new commitments. The Table also indicates the origin of the financing.

Agricultural expenditure should be entirely financed by the margin available beneath the guideline and therefore the financial perspective ceilings do not need to be raised. When the cost of enlargement is taken into account, overall agricultural expenditure should leave a significant margin beneath the guideline only at the end of the period, i.e. in 2005 or 2006.

The appropriations for payments for other headings will be covered by the reserve of amounts earmarked for this purpose in the financial perspective table for the fifteen Member States and by the additional own resources authorised by the increase in the Union's GNP resulting from accession.

However, current forecasts for the GNP indicate that the financing sources available will exceed the appropriations for payments required. The unused net resources will then be added to the margin for unforeseen expenditure, which will increase from 0.03% of the GNP of the fifteen Member States to 0.05% and then 0.06% of the GNP of the enlarged Community.

5.3. Incorporating the impact of accession in the financial perspective of an enlarged Community

For each accession the Commission will propose an adjustment of the financial perspective, taking account of the actual accession arrangements and basing itself on the planning set out in Table 2.

This adjustment will consist of raising the ceilings for headings 2, 3 and 5 to cover accession-generated expenditure. The agricultural guideline will not be raised at the time of accession, since the new expenditure will be covered by the margin beneath the guideline. Nevertheless, it will be calculated, by the same method, using parameters that relate to the enlarged Community, and especially taking account of increased economic growth from 2003, given the faster growth rate of the Central and Eastern European countries.

Table 1

Financial perspective

EUR million - 1999 prices - Appropriations for commitments	1999	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE(*)	45.205	46.050	46.920	47.820	48.730	49.670	50.630	51.610
<i>of which: Pre-accession aid</i>		520	520	520	520	520	520	520
2. STRUCTURAL OPERATIONS	39.025	36.640	37.470	36.640	35.600	34.450	33.410	32.470
Structural Funds	32.731	32.600	33.430	32.600	31.560	30.410	29.370	28.430
Cohesion Fund	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000
Pre-accession structural instrument adjustments (**)	3.294	1.040	1.040	1.040	1.040	1.040	1.040	1.040
3. INTERNAL POLICIES	6.386	6.390	6.710	6.880	7.050	7.230	7.410	7.600
4. EXTERNAL ACTION	6.870	6.870	7.070	7.250	7.430	7.610	7.790	7.900
<i>of which: Pre-accession aid</i>		1.560	1.560	1.560	1.560	1.560	1.560	1.560
5. ADMINISTRATION	4.723	4.730	4.820	4.910	5.010	5.100	5.200	5.300
6. RESERVES	1.192	850	850	600	350	350	350	350
Monetary reserve	500	500	500	250	0	0	0	0
Emergency aid reserve	346	200	200	200	200	200	200	200
Guarantee reserve	346	150	150	150	150	150	150	150
TOTAL APPROPRIATIONS FOR COMMITMENTS	103.401	101.530	103.840	104.100	104.170	104.410	104.790	105.230
TOTAL APPROPRIATIONS FOR PAYMENTS	96.380	98.800	101.650	102.930	103.520	103.810	104.170	104.560
Appropriations for payments as % of GNP	1,23%	1,24%	1,24%	1,22%	1,20%	1,18%	1,15%	1,13%
Margin	0,04%	0,03%	0,03%	0,03%	0,03%	0,03%	0,03%	0,03%
Available for accession				0,02%	0,04%	0,06%	0,09%	0,11%
Own resources ceiling	1,27%	1,27%	1,27%	1,27%	1,27%	1,27%	1,27%	1,27%

(*) The ceiling corresponds to the agricultural guideline.

(**) Including the amount in respect of the EEA financial mechanism and the adjustment proposed by the Commission to take account of the conditions of implementation of the 1997 budget.

Table 2:
Expenditure resulting from accession; financing

EUR million - 1999 prices	2002	2003	2004	2005	2006
Expenditure					
Heading 1 (*)	1.600	2.030	2.450	2.930	3.400
Heading 2	3.750	5.830	7.920	10.000	12.080
Heading 3	730	760	790	820	850
Heading 5	370	410	450	450	450
Total appropriations for commitments	6.450	9.030	11.610	14.200	16.780
(1) Total appropriations for payments	4.140	6.710	8.890	11.440	14.220
Sources of financing available					
Financing of agricultural expenditure by drawing on the margin available beneath the guideline	1.600	2.030	2.450	2.930	3.400
Amounts earmarked for accession in the financial framework of the fifteen-nation Community (estimate)	1.280	3.300	5.680	8.060	10.470
Increase in own resources resulting from growth in Union GNP following enlargement (estimate)	3.440	3.510	3.580	3.660	3.740
(2) Total financing available	6.320	8.840	11.710	14.650	17.610
Changes in the margins beneath the own resources ceiling					
Margin (2) - (1)	2.180	2.130	2.820	3.210	3.390
Margin in the financial framework of the fifteen-nation Community (0.03% of GNP)	2.520	2.580	2.650	2.720	2.780
Total margin available in an enlarged Community (estimate)	4.700	4.710	5.470	5.930	6.170
Total margin as a percentage of the GNP of the enlarged Community	0,05%	0,05%	0,06%	0,06%	0,06%

(*) Expenditure estimated at 1999 prices for the purposes of comparison. Only estimates at current prices are relevant.

Basic economic data

EUR billion - 1999 prices	1999	2000	2001	2002	2003	2004	2005	2006
GNP - Fifteen	7804,3	7999,4	8199,4	8404,4	8614,5	8829,8	9050,6	9276,9
GNP - new Member States				291,9	303,6	315,7	328,4	341,5
GNP - TOTAL				8696,3	8918,1	9145,6	9378,9	9618,3

Growth forecasts	2000 - 2001	2002 - 2006
GNP - Fifteen	2,5%	2,5%
GNP - new Member States	4,0%	4,0%
GNP - enlarged Community		2,6%
Deflator	2,0%	2,0%

Estimate of agricultural expenditure (current prices)

EUR million	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural guideline (current prices) (*)	45.205	46.940	48.750	50.630	52.600	54.650	56.790	59.020
Agricultural expenditure (current prices)	40.400	42.650	45.710	47.515	49.040	49.250	49.270	49.360
Fifteen-nation Community (**)	40.400	42.120	45.170	46.965	48.480	48.680	48.680	48.760
Reformed CAP (market measures)	37.800	37.275	40.280	42.035	43.510	43.670	43.620	43.670
Accompanying rural development measures and horizontal measures in the fisheries sector	2.600	4.745	4.790	4.830	4.870	4.910	4.960	4.990
Veterinary and plant-health measures		100	100	100	100	100	100	100
Pre-accession aid (***)		530	540	550	560	570	590	600
Margin	4.805	4.290	3.040	3.115	3.560	5.400	7.520	9.660
<i>Estimated expenditure for accession (pm)</i>				1.700	2.200	2.700	3.300	3.900

(*) Guideline for the fifteen. Assuming a deflator of 2% a year between 2000 and 2006.

(**) For 1999 the figure shown is not necessarily the exact amount to be proposed in the preliminary draft.

(***) EUR 520 million at constant 1999 prices.

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