COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION

AGENDA 2000 : THE LEGISLATIVE PROPOSALS
OVERALL VIEW

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Context

In its Agenda 2000 communication of 16 July 1997 the Commission set out proposals for the reform of existing EU policies, the process of Enlargement and the financial framework for the period 2000-2006.

The intensive discussions of the Commission's communication in the Council and the Parliament allowed a technical examination of the package. Moreover, they enabled the European Council in Luxembourg in December 1997 to agree on the start of the **Enlargement process.** This comprises the first meeting of the European Conference in London on 12 March 1998; the launch of the Accession Process with all eleven candidate countries in the margins of the General Affairs Council on 30 March and the opening of Accession negotiations with six countries on 31 March 1998.

The **legislative proposals** adopted by the Commission today provide the legal texts on which decisions can be taken on the policy reforms proposed in Agenda 2000 and on the new pre-Accession aid instruments. The Commission has also adopted a report on the workings of the Interinstitutional Agreement on Budget Discipline and its proposal for new Financial Perspectives for the period 2000-2006.

Still to come in the autumn of 1998 is the Commission's comprehensive **report on the own resources system** which will also address the development of relative budgetary positions of the Member States.

The proposals adopted today fall into four main groups as follows:

- agricultural Regulations;
- Regulations on the Structural and Cohesion Funds;
- pre-Accession instruments; and
- the Financial Perspective for 2000-2006 (together with reports on the operation of the Interinstitutional Agreement on budget discipline and the Loan Guarantee Regulation (N° 2728/94)).

It should also be noted that the Commission adopted today a proposal for a revised Financial Regulation for Trans European Networks, thus adding a further dimension to this package in a priority area.

- **Agriculture**

The main proposals for new agricultural Regulations cover :

- revised Council Regulations for the common market organisations for cereals, arable crops, beef, and milk;

- a revised Council Regulation on olive oil (which follows the recent proposal on tobacco and will be followed by a proposal on wine before June 1998);

- a "horizontal" Regulation to introduce some common provisions on cross compliance with environmental conditions, modulation of payments linked to the labour force and an element of degressivity in large payments;

- a revision to the EAGGF Financing Regulation (729/70);

- a new Regulation on support for rural development from the EAGGF both from its Guidance Section (in objective 1 areas) and from the Guarantee Section (elsewhere).

The main principles of these proposals follow the prescription for further CAP reform set out in Agenda 2000. Some adjustments have however been made to take account of extensive consultations and notably of the first round of discussions in the Council in the autumn of 1997. In particular, it is now proposed to have a larger reduction in intervention prices for dairy products of 15 % instead of 10 %, which substantially improves competitiveness and marketing possibilities. This will be offset by a small increase (2 %) in milk quotas to be allocated in favour of young farmers in all Member States and to farmers in mountainous and Nordic regions. It will be further offset by the retention of the premium for maize silage. Because this will also benefit beef production, there is a corresponding adjustment in the bull premium.

The opportunity has been taken to consolidate and simplify the existing Regulations wherever possible. In accordance with the principle of subsidiarity more discretion will be left to the Member States to decide on the allocation of part of the direct payments to beef and dairy farmers. Moreover, the "horizontal" Regulation will permit Member States to reduce payments where cross compliance with national environment conditions has not been met and where the agricultural labour force has been reduced below a certain level. The proceeds of such reductions will be available for environmental measures by the Member States. The horizontal Regulation also introduces an element of degressivity for holdings in receipt of payments in excess of EUR 100,000.

The Regulation on support for rural development from the EAGGF (which consolidates nine existing Regulations) will provide a coherent approach to rural development measures across the EU. In objective 1 and 2 regions such measures will be included in the same programming approach as for the Structural Funds.

The agricultural proposals are for the most part due to come into effect in the year 2000. They represent a further major step in the direction of the reform of the CAP which was started in 1992. As indicated in Agenda 2000, the further reductions in market support prices proposed and the increase in direct payments to farmers are designed to improve the competitiveness of EU agriculture on domestic and world markets thus reducing the risk of a return to the production of expensive and unsaleable surpluses while avoiding over compensation. Lower prices will benefit consumers and leave more room for price differentiation in favour of quality products. Greater market orientation will prepare the way for the integration of new Member States and reinforce the EU's position in the coming WTO Round. Moreover, there will be increased emphasis in the new CAP on food safety and environmental concerns. The rural development Regulation will for the first time bring together all the measures related to the development of the countryside which are funded by the EAGGF.

- **Structural Funds and Cohesion Fund**

The proposals for new Regulations on the Structural and Cohesion Funds will provide the legal framework for support from these funds in the next programming period 2000-2006. The package has been constructed around the three principles enunciated in Agenda 2000, namely concentration, simplification and clarification of responsibilities. The legal texts proposed are as follows :

- a new general Regulation including provisions which apply to all the Funds (this replaces two existing Council Regulations);

- new "vertical" Regulations for each of the four Funds (ERDF, ESF, FIFG and, a Regulation on support for rural development from the EAGGF (see above));

- a revised Regulation for the Cohesion Fund.

The key elements are as set out in the Agenda 2000 communication :

- strict application of the 75 % GDP per head eligibility criterion for objective 1. Objective 1 regions, which will also cover ultraperipheral regions and ex-objective 6 regions, should continue to receive about 2/3 of the resources for structural funds;

- concentration of support in new objective 2 regions (covering restructuring areas of industrial and rural decline, urban areas and areas dependent on fisheries) limiting EU population covered to 18 % with an equitable contribution to this concentration from the Member States, limiting the reduction per Member State (including regions phased out from Objective 1 but eligible for Objective 2) to no more than one third of the coverage of current Objective 2 and 5b regions;

- objective 3 to finance human resource programmes in all other areas and to provide a general reference framework for such policies throughout each Member State;

- continuation of restructuring of fishing fleets and socio-economic accompanying measures in areas dependent on fishing;

- phasing out arrangements for regions losing eligibility to objectives 1 or 2 over 6-7 years and 4 years respectively;

- encouragement for Structural Fund resources to be combined with financial engineering instruments;

- clarification and decentralisation of responsibility for programming and implementation (reducing the number of decisions which need to be referred to the Commission); deepening and strengthening of partnership;

- reduction in the number of Community initiatives from 14 to 3 and their share of funding from 9 % to 5 %; initiatives more targeted on Community wide actions;

- simplification of the verification of additionality;

- simpler financial arrangements in return for clearer Member State responsibilities for monitoring, evaluation, control and corrections;

- rewards for well run programmes through extra allocations from a performance reserve; and
- for the Cohesion Fund, appropriate macro-economic conditionality for countries participating in the single currency and streamlined financial management provisions.

Key questions about the eligibility of specific regions for the different objectives cannot be answered until the autumn. Only then will data become available which will permit the identification of those regions which are likely to qualify for the various Structural Fund objectives. In the case of objective 1 the Commission will draw up the list of those regions whose GDP per capita was less than 75% of the EU average in the last three years for which statistics are available. In the case of the new objective 2 Member States will be invited to propose regions from among those which qualify under a range of EU and national criteria included in the Structural Fund regulations but within population ceilings for each Member State designed to limit eligibility to no more than 18% of the population of the EU overall. The Regulations, which enter into force from 1.1.2000, should be adopted by early 1999 at the latest to prevent programming delays in the year 2000.

As proposed in Agenda 2000, the Commission's intention is that the overall envelope for structural and cohesion policies should be maintained at the level of 0.46% of GNP over the period 2000-2006, which equates to nearly EUR 287 billion (in 1999 prices). Of this amount about EUR 240 billion, including EUR 21 billion for the Cohesion Fund, will be available in the present Member States (compared with EUR 208 billion for 1993-99 on the same price basis) . The remaining EUR 47 billion will be for structural assistance in new Member States and the candidate countries. This represents a substantial commitment to the policy of cohesion which will be further reinforced by the intended concentration of resources on the poorest regions and those with the worst structural problems, in particular regarding unemployment.

A considerable effort has been made to simplify the existing procedures in a number of respects and to decentralise decision taking as far as possible to the authorities in the Member States and regions concerned. This more decentralised approach brings with it increased responsibility for accurate monitoring and control of programmes at national and regional level and, where necessary, effective action on financial corrections. In making its proposals in these areas the Commission has drawn on the experience gained in recent years in improving financial management and control under the SEM 2000 initiative.

- **Trans-European Networks**

The proposed revision to the TEN financial regulation both sets out to improve the management of this programme, through greater recourse to multiannual planning, (which will facilitate public private partnerships by providing funding availability for the lifetime of a project), and provides an indication of spending needs totalling EUR 5.5 billion in the period 2000 - 2006, with around EUR 5 billion of this for Transport TENs.

- **Pre-Accession instruments**

The instruments for pre-accession aid proposed in Agenda 2000 comprise :

- a co-ordination Regulation to coordinate the three pre-Accession aid instruments to avoid any overlapping;

- an agricultural pre-accession instrument;
- an instrument for Structural Policies for pre-Accession (ISPA); and
- the existing PHARE Regulation will continue to provide pre-accession aid.

Actions under the three pre-Accession aid instruments will be integrated into the Accession Partnerships with each of the candidate countries to ensure coherence. The overall amount of pre-Accession aid will total some EUR 3 billion a year for the period 2000-2006 (more than double the amount available in 1999) :

- the PHARE programme will focus on accession by setting two priority aims which were endorsed by the European Council at Luxembourg : the reinforcement of administrative and judicial capacity (about 30 % of the overall amount) and investments related to the adoption and application of the "acquis" (about 70 %);
- the agricultural instrument will support the modernisation of the agriculture and food industries through improved processing, marketing and quality control and assistance for rural development;
- ISPA will provide support for transport networks and the protection of the environment.

The three pre-Accession aid instruments will be operated in the context of the Accession Partnerships with each of the candidate countries. These Partnerships will provide a single framework setting out the priorities to be pursued by each country and the various financial resources available from the Community to support the pre-Accession process. Each candidate country has been invited to draw up a national programme for the adoption of the EU "acquis" indicating in detail how it will implement each of the priorities identified in the Accession Partnership. The monitoring of Accession Partnerships and the related national programmes will provide an important input into the Commission's regular reviews of the progress of candidate countries.

Financial Perspectives and Interinstitutional Agreement (IIA)

In accordance with Article 25 of the existing Interinstitutional Agreement (IIA) on budget discipline and the improvement of the budgetary procedure the Commission has adopted a report on the working of the IIA and proposals for the Financial Perspective for the period 2000-2006. The proposals for the Financial Perspective closely follow those in Agenda 2000 : the figures have changed because they are presented in 1999 prices rather than 1997 prices. As requested by the Luxembourg European Council, the Financial Perspective is presented on an EU15 basis, leaving sufficient margin to finance enlargement, but with an accompanying table to estimate the costs associated with Enlargement and their financing under the technical assumptions used by the Commission.

The main table in the Financial Perspective sets ceilings for the six categories of expenditure (agriculture, structural policies, internal, external, administration and reserves). It indicates a growing unused margin which may be set aside for Enlargement within the ceiling on the EU's revenues (or "own resources") of 1.27 % GNP. Table 2, analyses the amounts which should be available for the initial costs of Enlargement in the period 2000-2006. This still leaves room for an ample contingency reserve within the own resources ceiling, taking into account its increase due to Enlargement.

The report on the operation of the IIA analyses how the agreement has worked in practice since 1993 and suggests some improvements which could be incorporated into a new agreement for the succeeding period. These would provide some limited additional flexibility for transfers between the internal and external categories of expenditure and for a limited carryover of unspent allocations from one year to the next to meet a specific political priority. The current rule providing for automatic transfers of unspent commitments in category 2 (structural policies) to subsequent years will no longer be necessary. The Commission will propose that the new IIA should consolidate and complete where necessary, all the extant agreements on budgetary matters between the Parliament, the Council (which make up the two halves of the Budget Authority) and the Commission. These cover such matters as the classification of expenditure, respect for financial ceilings in legislation, the need for a legal base for items in the Budget and the conciliation process in the budget procedure.

The Commission will circulate a working document with the text for a new IIA for use in the negotiation with the Budget Authority. Further legislative proposals will be required to amend the Budget Discipline Decision in due course.

The Commission has also adopted a report on the operation of the Loan Guarantee Regulation (N° 2728/94) which includes some proposals for amending the Regulation to take account of the experience gained since its adoption. It is proposed that the rate of provisioning on new loans should be reduced to 6% and the amount of the reserve reduced to EUR 150 million from the year 2000 in order to maintain the existing capacity to make loans.

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Further details on the contents of the legislative package will be found in the explanatory memoranda which accompany each of the main groups of proposals. The Commission hopes that the Council and Parliament will set in hand the necessary detailed examination of its proposals without delay. Although it will not be possible to reach a final agreement until all the missing elements are in place, there are strong arguments for seeking to reach an overall settlement, if possible, under the Austrian Presidency before the end of 1998. Failure to adopt the proposals on the Structural Funds by then in particular would be likely to result in serious delays in the programming for the new period. Finally, agreement on the financial package is necessary to avoid delays in the Enlargement negotiations.

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