COUNCIL OF
THE EUROPEAN UNION

Brussels, 21 April 2005

8292/05

CADREFIN 84

NOTE

from :	the Presidency
to :	Council
Subject :	Financial Perspective 2007-2013

1. The Presidency hereby submits to delegations a revised version of a "negotiating box" on the Financial Perspectives. This was foreseen in the Presidency's plans for the organisation of future work circulated in January (document 5045/05). Drawing on the experience of the Agenda 2000 negotiations, the Presidency considers that the negotiating box is central to achieving the objective agreed by the European Council in December 2004 of reaching political agreement by June 2005.

2. Both the structure and format of the negotiating box are based on that used in the Agenda 2000 negotiations. It is important to underline that <u>the negotiating box is not a report on the discussions so far</u>. These are instead covered in the two reports drawn up at the end of the Irish and Dutch Presidencies as well as the separate summary of work to date under the Luxembourg Presidency (doc. 6825/05 CADREFIN 35). <u>Nor does the negotiating box at this stage constitute an attempt to draw up a global compromise package</u> on the negotiations.

It is rather a tool designed to provide a solid framework and give focus and momentum to the discussions. To this end it incorporates two kinds of elements: language on principles and issues which might serve as the basis for the conclusions of the June European Council (presented in normal typeface), and descriptions of the main problems which the Presidency considers will need to be addressed if an overall agreement is to be reached (presented in italics).

3. The negotiating box has been drawn up under the sole responsibility of the Presidency. <u>It is not binding on any delegation</u>. <u>This will remain the case throughout the negotiating process</u>. The Presidency continues to be guided by the principle that nothing is agreed until everything is agreed.

4. The negotiating box is intended to be a dynamic document which will both guide and reflect the discussions. The Presidency will assume responsibility for amending and supplementing the text in the light of the evolving negotiations. These negotiations will be conducted according to the indicative work plan already distributed to delegations (doc. 6826/05 CADREFIN 36).

NON-PAPER

FINANCIAL PERSPECTIVE 2007-2013

NEGOTIATING BOX

INTRODUCTION

[PM]

THE NEW FINANCIAL PERSPECTIVE - GENERAL

1. The new Financial Framework should provide the financial means necessary to address effectively and equitably future internal and external challenges, including those resulting from disparities in the levels of development in an enlarged Union. It should, in parallel, attest to determined efforts towards budgetary discipline in all policy areas within a general context of budgetary consolidation in the Member States. Policies agreed in accordance with the Treaty should be consistent with the principles of subsidiarity, proportionality and solidarity. They should also provide added value.

2. The new financial perspective should cover the seven years between 2007 and 2013 and be drawn up for a European Union comprising 27 Member States on the working assumption that Bulgaria and Romania will join the Union in 2007.

3. Expenditure under the new Financial Perspective should be grouped under 5 headings designed to reflect the Union's political priorities and providing for the necessary flexibility in the interest of efficient allocation of resources. Where a heading is divided into sub-headings, these will have the same status as separate headings.

4. The maximum total figure for expenditure for EU 27 for the period 2007-2013 is X in commitment appropriations, representing A% of EU GNI, and Y in payment appropriations, representing B% of EU GNI. The breakdown of commitment appropriations is as described below. The same figures are also set out in Table A (attached). They are expressed using constant 2004 prices with automatic annual technical adjustments for inflation.

5. Expenditure will be financed under a ceiling for own resources maintained at its current level of 1,31% of EU GNI for commitment appropriations and 1,24% of EU GNI for payment appropriations.

p.m. *Reference to the opinion of the European Parliament on the Financial Perspective packet (expected in May 2005)*

<u>Renewal of the Interinstitutional Agreement</u>

6. The current financial framework and Interinstitutional Agreement have largely succeeded in their objective of ensuring financial discipline, the orderly evolution of expenditure and smooth budgetary procedures. The new agreement to be established between EP, Council and Commission will have to pursue the same objectives and should allow for the degree of flexibility needed to strike a satisfactory balance between budgetary discipline and efficient resources allocation. For the purposes of sound financial management, the institutions will ensure as far as possible that, with the exception of sub-heading 1b, sufficient margins are left available beneath the ceilings for the various headings and sub-headings. Moreover, this renewed agreement should also be used to update and simplify the various existing agreements and joint declarations concerning budgetary matters.

7. The European Council calls on the Council, on the basis of a common position and subject to acceptable terms being attainable, to reach agreement with the EP and Commission on a new IIA reflecting the outcome of these conclusions.

HEADING 1A) – COMPETITIVENESS FOR GROWTH AND EMPLOYMENT

8. The level for sub-Heading 1a) should provide adequate financing for initiatives taken at the European level in support of action by the Member States to contribute to the goals of the Lisbon Strategy. These are grouped under the following five broad objectives: research and technological development, connecting Europe through EU networks, education and training, promoting competitiveness in a fully-integrated single market, and the social policy agenda. The level of commitments should not exceed:

SUB-HEADING 1a)				(Mio euros, 2004 prices)		
2007	2008	2009	2010	2011	2012	2013
xxx	xxx	xxx	xxx	xxx	xxx	xxx

In the light of future discussions and the final overall level of commitments for this heading, it may be useful to examine whether it would be desirable to provide an indicative breakdown of funding between each of these five objectives, bearing in mind the proportions proposed by the Commission.

HEADING 1B) – COHESION FOR GROWTH AND EMPLOYMENT

9. The operation of cohesion policy will have contributed significantly over the current financial perspective period to fulfilling the Treaty aim of reducing disparities between the levels of development of the various regions. The recent enlargement, and the one to come, has considerably increased the economic and social disparities at both regional and national level, thus underscoring the need to maintain the goal of achieving economic and social cohesion firmly at the centre of the Union's policy objectives over the next financial perspective period while, at the same time, supporting the Lisbon Strategy goals.

10. Accordingly, there should be an appropriate concentration of structural and cohesion fund assistance on the least developed regions and Member States while providing for satisfactory transitional arrangements in particular for those contributing most to such a concentration. Actions supported by cohesion policy should be focussed on investment in a limited number of priorities organised around three Objectives: **Convergence; Regional competitiveness and employment; Territorial cooperation**.

11. A number of reforms will improve the delivery of structural funds, by encouraging a more strategic approach to programming, bringing about greater decentralisation of responsibilities and enhancing management and control systems. In this connection, the work of the Cohesion Fund will be integrated into the programming of structural assistance to ensure greater coherence among the various Funds.

<u>Overall level of allocations</u>

12. The appropriate level of commitment appropriations to be entered in the financial perspective for the structural funds and the Cohesion Fund shall be:

SUB-HEADING 1b) (Mio euros, 2004 prices)						
2007	2008	2009	2010	2011	2012	2013
xxx	xxx	xxx	xxx	xxx	xxx	xxx

13. [81%] of these funds (yyy million euros) will be allocated to the Convergence objective, of which xxx% (yyy million euros) for the Cohesion Fund, xxx% (yyy million euros) for the "phasing out" regions and Member States [and xxx% (yyy million euros) as additional financing for the outermost regions].

[15%] (yyy million euros) of these funds will be allocated to the Regional competitiveness and employment objective, of which xxx% (yyy million euros) to the "phasing in" regions.

The Territorial cooperation objective will be allocated [4%] (yyy million euros) of these funds.

Definition of the different objectives and eligibility

The Convergence Objective

14. The Convergence Objective shall be aimed at speeding up the convergence of the least-developed regions and Member States.

15. The regions eligible for funding from the structural funds under this Objective are the current NUTS level II regions whose per capita GDP, measured in purchasing power parities and calculated on the basis of Community figures for the period 2000-2002, is less than 75% of the EU 25 average.

16. The Member States eligible for funding from the Cohesion Fund shall be those whose per capita GNI, measured in purchasing power parities and calculated on the basis of Community figures for the period 2001-2003, is less than 90% of the EU 25 average and which have a programme for meeting the economic convergence conditions referred to in Article 104 of the Treaty.

The Regional Competitiveness and Employment Objective

17. This Objective shall be aimed at strengthening regions' competitiveness and attractiveness as well as employment. The respective contributions of the ERDF and ESF shall be fixed by the Member States in consultation with the Commission.

18. The entire territory of the Community shall be eligible, with the exception of the regions eligible for funding from the structural funds under the Convergence Objective and the regions covered by transitional arrangements (cf. paragraph 30).

European Territorial Cooperation Objective

19. This Objective aims at strengthening territorial cooperation at the cross-border and trans-national [and inter-regional] levels and at establishing cooperation networks and furthering the exchange of experience at the appropriate territorial level.

20. All NUTS level III regions along the internal land borders, certain NUTS level III regions along the external land borders and certain NUTS level III regions along the maritime borders separated, as a general rule, by a maximum of [150] kms shall be eligible for cross-border cooperation financing.

21. The list of eligible trans-national regions will be drawn up by the Commission on the basis of the Community- level strategic guidelines established by the Council.

22. The entire territory of the Community shall be eligible for the financing of [inter-regional cooperation and] cooperation networks and exchange of experience.

Special cases [pm]

Allocation method

Convergence regions

23. The specific level of allocations to each Member State should be based on an objective method and calculated as follows:

Each Member State's allocation is the sum of the allocations for its individual eligible regions, the latter calculated on the basis of relative regional and national prosperity and the unemployment rate according to the following steps:

(i) determination of an absolute amount (in euros) obtained by multiplying the population of the region concerned by the difference between that region's GDP per capita (PPS) and EU 25 average GDP per capita (PPS);

(ii) application of a percentage to the above absolute amount in order to determine that region's financial envelope; this percentage is graduated to reflect the relative prosperity, as compared to the EU 25 average, of the Member State in which the eligible region is situated, i.e.:

- [3,5 – 4,5%] for regions in Member States whose level of GNI per capita is below [82%] of the Community average

- [2,8 – 3,6%] for regions in Member States whose level of GNI per capita is between [82%] and [99%] of the Community average

- [2,1 – 2,7%] for regions in Member States whose level of GNI per capita is over [99%] of the Community average

(iii) to the amount obtained under step (ii) is added, if applicable, an amount resulting from the allocation of a premium of [100–200 euros] per unemployed person, applied to the number of persons unemployed in that region exceeding the number that would be unemployed if the average unemployment rate of all the EU convergence regions applied.

24. The level of funds determined by the application of these parameters will include that part to be transferred to Heading 2 (cf. paragraph 39).

Cohesion Fund

25. The total theoretical financial envelope is obtained by multiplying average per capita aid intensity of [31,3 – 40,2 euros] by the eligible population. Each eligible Member State's a priori allocation of this theoretical financial envelope corresponds to a percentage based on its population, surface area and national prosperity, and obtained by applying the following steps:

1) calculation of the arithmetical average of that Member State's population and surface area shares of the total population and surface area of all the eligible Member States;

2) adjustment of the percentage figures so obtained by a coefficient representing one third of the percentage by which that Member State's GNI per capita (PPS) exceeds or falls below the average GNI per capita of all the eligible Member States (average expressed as 100%).

26. In order to reflect the significant needs of new Member States in terms of transport and environment infrastructure, the share of the Cohesion Fund will be set at ⅓ of the total financial allocation (structural funds plus Cohesion Fund) for the new Member States on average over the period [with the annual amounts being determined by the Member States in consultation with the Commission]. For the other Member States, their financial envelope results directly from the allocation method described in paragraph 23.

27. Member States' eligibility for the Cohesion Fund will be reviewed in 2010 on the basis of data relating to the EU-25.

<u>Regional Competitiveness and Employment Objective</u>

28. The share of each Member State concerned is the sum of the shares of its eligible regions, with the latter determined according to the following criteria, weighted as indicated: total population (weighting 0,6), number of unemployed people in NUTS Level III regions with an unemployment rate above the group average (weighting 0,15), number of jobs needed to reach an employment rate of 70% (weighting 0,1), number of employed people with a low educational level (weighting 0,1), population density (weighting 0,05). The shares are then adjusted according to relative regional prosperity (for each region, increase or decrease of its total share by +5%/-5% according to whether its GDP per capita is below or above the average GDP per capita for the group).

Territorial Cooperation Objective

29. The allocation of resources between the beneficiary Member States is determined as follows:

- for the cross-border component (including the contribution of the ERDF to the cross-border strand of the European Neighbourhood and Partnership Instrument and the Instrument for Pre-accession), on the basis of the population of the NUTS level III regions in terrestrial and maritime border areas, as a share of the total population of all the eligible regions. Contributions provided from Heading 4 should be allocated simultaneously;

  As far as the financing of the external cross-border component is concerned, an alternative option might be to transfer all of this component to Heading 4.

- for the transnational component, on the basis of the total population of the Member State, as a share of the total population of all the Member States concerned.

The shares of the cross-border and transnational [and inter-regional cooperation] components are xxx% and yyy% [and zzz%] respectively.

Transitional arrangements

30. In the interest of equity and to allow the process of convergence to be completed, transitional arrangements will be put in place.

31. The following categories of region and Member State are concerned:

(a) the regions which would have enjoyed Convergence objective status had the eligibility threshold remained at 75% of average EU-15 GDP, but which lose eligibility because their nominal per capita GDP level will now exceed 75% of the new (lower) EU-25 average (the so-called "statistical" effect). These regions will be "phased out" of the Convergence objective;

(b) the regions currently enjoying full Objective 1 region status which cease to be eligible in the next financial perspective period because natural growth has brought their per capita GDP level to over 75% of the EU-15 average, corresponding to over 82,19% of the new EU-25 average ("growth" effect). These regions will be "phased into" the Regional competitiveness and employment objective;

(c) the Member States currently eligible for funding from the Cohesion Fund and which would have continued to be so had the eligibility threshold remained at 90% of average EU-15 GNI, but which lose eligibility because their nominal per capita GNI will now exceed 90% of the new (lower) EU-25 average. These Member States will be "phased out" of the Cohesion Fund element of the Convergence objective.

32. The allocations under these phasing out/in arrangements will result from the application of the following parameters:

(a) for the regions defined in paragraph 29 (a) *supra*, [80%] of their individual 2006 per capita aid intensity level in 2007 and a linear reduction thereafter to reach the average per capita aid intensity level for the regional competitiveness and employment objective in 2013.

When in a given Member State these regions represent at least one third of the total population of the regions eligible for Objective 1 assistance in 2006, the rates of assistance shall be [80%] of their individual 2006 per capita aid intensity level in 2007 and 2008, [76%] in 2009, [72%] in 2010, [68%] in 2011, [64%] in 2012 and [60%] in 2013.

The level of funds determined by the application of these parameters will include that part to be transferred to Heading 2 (cf. paragraph 39);

(b) for the regions defined in paragraph 29 (b) *supra*, [75%] of their individual 2006 per capita aid intensity level in 2007 and a linear reduction thereafter to reach the average per capita aid intensity level for the regional competitiveness and employment objective by 2011;

(c) for the Member States defined in paragraph 29(c) *supra* the allocation shall be degressive over 2 years, with the amount in 2007 being x% and the amount in 2008 y% of the amount allocated in 2006 from the Cohesion Fund.

33. It will be ensured that the 2007 point of departure will be objective and fair for those regions which were not eligible for Objective 1 status in the 2000-2006 period or whose eligibility started in 2004.

Ceilings on cohesion transfers

34. In order to pay regard to the capacity of Member States to effectively utilise the resources available as well as to the pressure on national resources arising out of the application of the principles of co-financing and additionality, the total transfers from funds supporting cohesion to any Member State shall not exceed 4% of that Member State's GDP, including those funds transferred to the new Rural development and Fisheries instruments.

35. In order to contribute to the objectives of adequately concentrating cohesion funding on the least developed regions and Member States and reducing disparities in average per capita aid intensities resulting from capping, the effective level of capping to be applied to each individual Member State shall be in inverse proportion to that Member State's average per capita GNI for the period 2001-2003 according to the following scale:

- for Member States whose per capita GNI is under [40%] of the EU-25 average: 4% of their GDP
- for Member States whose per capital GNI is equal to or above [40%] and below [45%] of the EU-25 average: 3,9% of their GDP
- for Member States whose per capita GNI is equal to or above [45%] and below [50%] of the EU-25 average: 3,8% of their GDP
- thereafter, the cap is reduced by 0,1 percentage point of GDP for each increment of [5] percentage points of per capita GNI as compared to the EU-25 average.

36. These calculations will be based on the latest statistics (available in April 2005). The projected growth rates for 2007-2013 will be applied according to the average rates for three categories of Member States: those already members prior to 1 May 2004, those acceding to the Union on 1 May 2004 and those due to accede on 1 January 2007.

Co-financing rates

37. The ceilings for the contributions from the Structural and Cohesion Funds shall be those laid down in Articles 51 and 52 of the Commission's proposal of 16 July 2004 for a Council Regulation laying down general provisions on the ERDF, ESF and Cohesion Fund, except that the ceiling for the standard rate of contribution by the ERDF or ESF under operational programmes in regions eligible under the Convergence objective situated in Member States eligible for the Cohesion Fund shall be 80%.

Other

38. *Various other aspects of cohesion policy will have to be addressed for the final agreement:*
   – *"n+2" rule,*
   – *scope of use of funds allocated to phasing-in regions,*
   – *definition of eligible costs,*
   – *eligibility of non-refundable VAT,*
   – *level of advance payments.*

HEADING 2 – PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES

39. Commitment appropriations for this Heading, which is intended to cover agriculture, rural development, fisheries and a new financial instrument for the environment, should not exceed the following level:

HEADING 2 (Mio euros, 2004 prices)							
	2007	2008	2009	2010	2011	2012	2013
	xxx	xxx	xxx	xxx	xxx	xxx	xxx
of which Agriculture - Market-related expenditure and direct payments	yyy	yyy	yyy	yyy	yyy	yyy	yyy

40. The amounts for market-related expenditure and direct payments correspond to those agreed at the October 2002 European Council, expressed in 2004 constant prices [and increased by appropriations intended to cover expenditure in respect of Bulgaria and Romania after accession]. These constitute a ceiling and also include the sums which, according to the modulation arrangements [1] agreed in the context of CAP reform, will be transferred to and disbursed under the new Rural Development instrument. No other transfers from this ceiling to the rest of the Heading will be allowed.

41. The allocation for the new Rural development instrument will be xxx million euros before modulation. The allocation for the new Fisheries instrument will be xxx million euros.

42. The amounts transferred from the funds supporting the regional component of the convergence objective to the Rural development and Fisheries instruments will be determined by the Member States in consultation with the Commission, using the historical percentages of expenditure in these areas during the period 2000–2006 (2004–2006 for the new Member States) as a reference point. These amounts will not be subject to reallocation.

[1] Including those equivalent arrangements covering the cotton and tobacco sectors.

43. *The issue of the criteria for allocating funds (including any particular specificities, geographical or others, which may need to be taken into account) under the other part of the Rural Development instrument (ex Guarantee section) and the Fisheries instrument still need to be addressed, as does the funding of the Natura 2000 network.*

<u>HEADING 3A) –FREEDOM, SECURITY AND JUSTICE</u>

44. The area of Freedom, Security and Justice covers a range of issues which relate specifically to the protection and rights of individual citizens and is a sector certain to continue to grow in importance in support of action by the Member States. The level of commitments should not exceed:

SUB-HEADING 3a) (Mio euros, 2004 prices)						
2007	2008	2009	2010	2011	2012	2013
xxx	xxx	xxx	xxx	xxx	xxx	xxx

<u>HEADING 3B) – OTHER POLICIES OF DIRECT INTEREST TO EUROPE'S CITIZENS</u>

45. A number of other actions concern in particular culture, youth, audiovisual matters and health and consumer protection, areas where the Union has a role as a catalyst for action by Member States. The level of commitments should not exceed:

SUB-HEADING 3b) (Mio euros, 2004 prices)						
2007	2008	2009	2010	2011	2012	2013
xxx	xxx	xxx	xxx	xxx	xxx	xxx

HEADING 4 – THE EU AS A GLOBAL PARTNER

46. The level of commitments for the Union's external actions and policies covered by Heading 4 and grouped in the main under the following six instruments: Pre-accession, Stability, Development cooperation and economic cooperation, European neighbourhood and partnership, Humanitarian aid and Macrofinancial assistance, should not exceed:

HEADING 4				(Mio euros, 2004 prices)		
2007	2008	2009	2010	2011	2012	2013
xxx xxx	xxx [1] yyy [2]	xxx yyy	xxx yyy	xxx yyy	xxx yyy	xxx yyy

47. *In the light of future discussions and the final overall level of commitments for this Heading, it may be useful to examine whether it would be desirable to provide an indicative breakdown of funding between the different objectives foreseen by the six instruments*.

48. Cooperation with the ACP countries will be allocated x billion euros; the amounts concerned [will be included in the EU budget from 2008] [will be provided for by a 10th EDF for the period 2008-2013].

The Presidency would suggest preparing for and aiming at an agreement on a new contribution key in the context of the agreement on the Financial Perspective, in the event of a decision on a 10th EDF.

49. The emergency aid reserve and the loan guarantee reserve will be financed through Heading 4 and fixed at a level of [221] million euros each. They should be adequately ring-fenced.

50. The Union should aim to ensure over the period 2007–2013 that at least 90% of its overall external assistance be counted as official development assistance according to the present DAC definition.

---

[1] If the EDF is included from 2008 onwards.
[2] If the EDF remains outside the budget over the period.

HEADING 5 – ADMINISTRATION

51. Taking account of the objective factors determining the current level of administrative expenditure, expenditure related to enlargement, increased operational activity and the effect of the new Statute, and savings made possible through efficiency gains and economies of scale, the level of commitments for the Union's administrative expenditure should not exceed:

HEADING 5				(Mio euros, 2004 prices)		
2007	2008	2009	2010	2011	2012	2013
xxx	xxx	xxx	xxx	xxx	xxx	xxx

52. This Heading will, without prejudice to the ABB approach now used in establishing the annual budget, lay down the ceiling for the administrative expenditure of all the Institutions.

OWN RESOURCES

53. *The current Own Resources Decision provides that the Commission shall undertake, before 1 January 2006, a general review of the own resources system, accompanied, if necessary, by appropriate proposals, in the light of all relevant factors, including the effects of enlargement on the financing of the budget, the possibility of modifying the structure of the own resources by creating new autonomous own resources and the correction of budgetary imbalances granted to the United Kingdom as well as the granting of reductions to Austria, Germany, the Netherlands and Sweden.*

54. *The Commission has, as part of its proposals for the next Financial Perspectives, submitted the called-for report on the operation of the own resources system. That report also sets out the various options the Commission sees for replacing, in the medium term, the current VAT resource by a "genuinely tax-based" resource. The report is, furthermore, accompanied by a proposal to simplify the VAT resource and introduce a single, generalised correction mechanism to correct excessive budgetary imbalances.*

55. *Preliminary discussions on the issue of own resources on the basis of the above-mentioned input has revealed that, without prejudice to individual delegations' positions, the following questions require further in-depth examination:*

(a) the UK rebate (justification, modalities, duration);

(b) the possible establishment of a generalised correction mechanism (whether on the lines proposed by the Commission or other lines);

(c) a possible further modification of the relative weight of the GNI and VAT resources under the own resources system;

(d) the creation of a genuinely new own resource in the medium term.