

PART TWO

THE DEVELOPMENT OF THE UNION'S POLICIES AND THE FUTURE FINANCIAL FRAMEWORK

The second part of the overall report which the Amsterdam European Council asked the General Affairs Council to prepare on Agenda 2000 covers the sections of the Commission communication dealing with the development of the Union's policies and the future financial framework.

This report was drawn up on the basis of the discussions held hitherto at Coreper and Council levels on each of the aspects dealt with in the Commission communication, namely: agricultural policy, economic and social cohesion, internal and external policies and the future financial framework of the Union. It sets out the detailed positions of the delegations on each of these matters and certain tendencies which emerged during the discussions.

I. COMMON AGRICULTURAL POLICY

At the end of the Agriculture Council's deliberations on the agricultural aspects of Agenda 2000, the Presidency noted that fourteen delegations were able to agree to the following conclusions which Spain was unable to accept as it disagreed with that part of paragraph 6 dealing with the agricultural guideline:

"In preparation for the Luxembourg European Council meeting, the Agriculture Council discussed in depth the agricultural aspects of Agenda 2000.

The Council noted the detailed positions taken up by Member States on the various components of the Commission's approach to CAP reform and in particular on the specific measures envisaged by the Commission; those positions are reflected in the SCA's report in 12195/97 and in the Agriculture Council's debates.

Without prejudice to those positions, the Council established for the European Council the following common general approach, which it considered should serve as a frame of reference in examining the Commission's future formal proposals and in negotiations for the enlargement of the European Union.

1. The Council pointed out that European agriculture has its own specific nature and characteristics related to its territorial coverage and the existence of different regions which may have, inter alia, particular specific characteristics, such as less-favoured, mountainous and remote regions, arid and semi-arid regions, arctic regions, urban or high population density regions, to the size of its rural population and the large number of family farms, to the diversity of its products and differences in its yields and to the multiple roles increasingly taken on by it.

The Council also pointed out that the common agricultural policy, springing from the founding principles laid down in Article 39 of the Treaty (increasing agricultural productivity, a fair standard of living for the agricultural community, stabilizing markets, ensuring the availability of supplies and reasonable prices for consumers) has undergone a continual process of development and adaptation in line with socio-economic realities both inside and outside the European Union and has gradually incorporated new aspects taking into account, in particular, consumer demands and society's awareness regarding environmental protection, the social dimension and animal welfare.

The Council has therefore set its sights on equipping Europe with a brand of agriculture capable of coping successfully with the challenges of the 21st century. It is firmly resolved to continue developing the existing model of European agriculture and act to assert its identity both inside and outside the European Union. In the Council's view, European agriculture as an economic sector must be versatile, sustainable, competitive and spread throughout Europe (including the less-favoured and mountainous regions). It must be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and must be able to respond to consumer concerns and demands regarding food quality and safety, environmental protection and the safeguarding of animal welfare.

2. The Council recognized that the record of the CAP reform embarked upon in 1992, although not yet completed, could on the whole be considered positive in several respects. It nevertheless noted the uneven effects of reform in the various sectors concerned, from one region to another, and between types of holdings.

The Council also recognized the value of the forecasting exercise carried out by the Commission and took the view that the long-term outlook for the main agricultural markets given in Agenda 2000 can be considered an acceptable working hypothesis as a pointer to trends, with the proviso that those forecasts will where necessary have to be updated as the situation develops so that, when adopting the eventual specific decisions, the Council can base its appraisal on the most reliable material possible.

The Council also agreed that maintaining the status quo could lead to the emergence of surpluses in the sectors given more detailed coverage in Agenda 2000.

3. In the light of all of the above considerations, the Council came to the conclusion that the reform process begun in 1992 should be continued, stepped up, adjusted and rounded off.

With this in view, the Council singled out the following lines to be taken:

- the approach involving mainly a combination of reduced price-support measures and compensation through direct aid as well as flanking measures, remains generally valid, although its suitability for various specific situations and the overall pattern of measures will have to be appraised on a case-by-case basis in the light of all material available both internally and externally;

- the details of reform in the various sectors concerned need to be designed in such a way as to arrive at economically sound, viable solutions which are socially acceptable, make it possible to ensure fair incomes, to strike a fair balance between production sectors, producers and regions and to avoid distortion of competition;
 - the reform process must, first of all, be conducted on the basis of the specific objectives set for European agriculture and the inherent features and problems of each production sector. At the same time, due account needs to be taken of the implications stemming from enlargement and from the European Union's external commitments;
 - it is important to complete the 1992 reform for Mediterranean products and thus to make reform a comprehensive exercise. In this connection the Council referred to the conclusions of the joint General Affairs and Agriculture Council meeting on 20 and 21 September 1993 and took the view that equivalent principles should apply to the various sectors concerned and the object of the exercise should be a balanced overall outcome;
 - European agriculture must also be capable of showing a strong presence in the world market and able to take advantage of the opportunities afforded by the anticipated growth of consumption in third-country markets. This of course means continuing the ongoing process of improving the competitiveness of the European agricultural and agri-foodstuffs sectors both on the internal market and on external markets. Such striving for greater competitiveness will in due course have to be reconciled as best it can with the development of the model of European agriculture referred to earlier.
 - In addition, the search for new outlets could include the potential offered by agriculture for the production of renewable energy sources.
4. The Council emphasized that keeping alive the fabric of the countryside in line with the model of European society is an important objective and in this context the problem of employment in rural areas is a core concern.

The Council confirmed that farming remains the key sector in rural economies and that market policies therefore continue to be essential here.

In order to keep alive the fabric of the countryside throughout Europe, multifunctional agriculture has to be spread throughout Europe, including regions facing particular difficulties. Care will have to be taken in particular to provide proper compensation for natural constraints and disadvantages and fairly reflect the contribution made by farmers in land use, maintenance of the countryside and conservation of natural resources.

Leaving aside problems regarding sources of funding, to be clarified and settled in due course, the Council nonetheless considered that, in tandem with market policies, the framing of a rural development policy has an important part to play in asserting the European agricultural identity and for preserving and creating permanent jobs both on and off farms.

With this in mind, the Council generally endorsed the following main objectives of such a development policy:

- bringing agricultural and agri-foodstuffs structural policy into line with the new challenges faced and encouraging young people to enter farming;
- conducting a more active policy involving greater heed and support for environment-friendliness and conservation of natural resources as well as for improved product quality and safety;
- promoting in the countryside economic diversity capable of creating alternative jobs and supplementing farm incomes, thereby helping to provide farmers with an adequate level of income.

Such a rural development policy should complement those implemented by Member States and be part of a partnership and cooperation approach, in compliance with the principle of subsidiarity.

Without at this stage commenting on the Commission's suggestions for the reorganization of Structural Fund operations, the Council further advocated exploring the ways and means to define a clearly identifiable rural development policy.

5. The Council saw the wisdom of streamlining agricultural regulations and procedures and further decentralizing the implementation of measures laid down at Community level. It took the view that, in so doing, care should be taken to see that the arrangements to be established are designed in such a way as not to distort competition and do not lead to re-nationalization of the CAP or to a shift of CAP budgetary costs to Member States.
6. The Council emphasized that the problem of funding the future CAP is crucial and that it is important to have adequate, suitable resources available to complete the reform process on the basis of the above approach and achieve the desired model of European agriculture. The Council confirmed its firm will to continue managing the common agricultural policy and to bring about its reform without breaching the budgetary discipline applicable to the European Union, and it took the view that, without prejudging its coverage, it would be necessary to retain the agricultural guideline, as a ceiling, both in principle and as at present calculated.

In this connection the Council noted the Commission's suggestions concerning the coverage of the agricultural guideline and the reasons provided in support of those suggestions, and agreed to give its views on the subject at a later stage once it has fuller, more detailed information on measures fundable out of the EAGGF Guarantee Section.

7. In asserting the identity of European agriculture and mapping out its approach, the Council has borne in mind the outlook for enlargement, as regards both substance and timing, and sought to give the countries applying to join the European Union a clear, unequivocal guide as to the direction in which they should aim their agricultural policies in order to facilitate accession.

It is the Council's belief that the model of European agriculture described above, which it wishes to consolidate and develop by means of reforms to be undertaken, will serve as a frame of reference for the future thrust of the applicant countries' agricultural policies and will thereafter provide a powerful force for integration in the enlarged Europe.

8. The Council also took into consideration constraints bound up with future multilateral

negotiations at the WTO. Irrespective of the point at which the reform process is completed, the Council saw a need to make the most of its results and take an aggressive line within the WTO to ensure that Europe does not have to make concessions twice over and to achieve the twofold aim of, firstly, maintaining Europe's ability to develop an agriculture in keeping with its characteristics and with very high quality and safety standards and, secondly, placing agricultural trading and market liberalization in a setting which brings international recognition of the constraints imposed on European farmers and agricultural products and does not call into question the principle of Community preference or that of solidarity with developing countries.

9. Taking into account also the necessity of completing the 1992 reform, the Council called upon the Commission to frame, at the earliest opportunity, its formal proposals on the basis of the above agreed approach and in the light of the detailed positions already stated by Member States both in the SCA (see 12195/97) and in the Agriculture Council. The Council was pleased to note here the undertakings given by the Commission regarding the timetable for submission of its future proposals.

The Council will await the conclusions of the Luxembourg European Council and the Commission's formal proposals before pressing ahead with the CAP reform exercise now set in motion."

II. ECONOMIC AND SOCIAL COHESION

1. *Overall cohesion effort and allocation of appropriations to the Structural Funds*

Beyond broad agreement on the importance of economic and social cohesion as a political priority for the Union, five main strands of opinion emerged regarding the quantified estimate of the effort in favour of economic and social cohesion:

- those who thought the Commission proposal was an acceptable basis for discussion, providing that the budget, equivalent to 0,46% of GNP, was seen as a ceiling rather than an expenditure objective; it was thought in some quarters that that percentage should come with a figure below that level, expressed in absolute terms. It was further pointed out that the exception made for category 2 ⁽¹⁾ stemmed from the special situation arising from enlargement to include Spain and Portugal – and not from some inviolable principle. The ceiling should provide for a significant margin – as large as possible, in certain cases, – to allow for unforeseen circumstances. The effect of reintroducing the concept of a ceiling and the need to allow for a significant margin should put an end to the practice of systematic and automatic re-budgeting;
- those who thought the need for a budget equivalent to 0,46% of GNP had not been demonstrated. On the premise that, whatever the circumstances, any ceiling should be expressed in absolute terms and not as a percentage of GNP, these delegations thought it premature to put forward actual figures, even as guidelines, since these could only be produced following a process of

⁽¹⁾ which involved treating the amounts allocated to this as objectives rather than as expenditure ceilings.

objective assessment which had not yet begun. While recognizing that enlargement should avoid affecting the situation in regions of the European Union already experiencing difficulties, these delegations rejected the automatic assumption that current aid should remain unchanged until 2006;

- those who considered, on the one hand, that the "expenditure objective" aspect of the amounts allocated to category 2 ought to be maintained, which includes the possibility of re-entry in the budget and, on the other hand, that 0,46% was insufficient if it was required to cover not only the cost of accession, but also to continue the cohesion effort in the fifteen Member States bearing in mind the negative impact of enlargement on certain regions whose situation in the outermost areas of the Union would deteriorate. These delegations pointed out that the financial requirements of enlargement could on no account be met by reducing the amounts granted to the least favoured regions of the current Union, without threatening the continued existence and outcome of the policy adopted in 1992. In this context one delegation called on the Commission to present the most precise assessment possible of the cost of enlargement if the *acquis* were to be applied in its entirety to the future new Member States;
- those who considered it not possible to decide on the amount at this stage, and who thought that the appropriation for the structural funds had to be fixed on the basis of needs and resources within the framework of genuine financial solidarity amongst all European countries;
- some also considered that fairness between Member States was essential, and required that, subject to absorption limits, a poorer country should be allocated more per capita than a richer country and that the total allocation between countries should be related to national GDP.

2. *Amount allocated to the Structural Funds*

- (a) *The Commission proposes allocating a total appropriation of around ECU 275 billion at 1997 constant prices (as against ECU 200 billion for the previous period), of which ECU 210 billion would go to the Structural Funds budget in the Union of 15 for the period 2000 2006.*

While the idea of consolidating the budgetary commitment was fairly well received by some delegations, there were still varying interpretations as to what was meant by consolidation depending on the period of reference:

- some believed that the proposed sum of ECU 210 billion was actually a reduction in comparison with the last year of the current financial perspective (1999), which should be seen as the only possible reference since it corresponded to the objective agreed in 1992. This should be maintained in its entirety since 1999 was to be regarded as the year when the cohesion effort had effectively reached its cruising speed. These delegations therefore thought that the objective of consolidating the current commitment implied that the sum of ECU 210 billion would be revised upwards;
 - others saw the budget of ECU 210 billion as an actual increase if reference was made – as was legitimate in their eyes – to the 1994–1999 average, and if the reduction in the number of eligible regions resulting from geographical concentration were taken into account; this led some to the view that the amount proposed by the Commission should be significantly reduced;
 - some pressed for the appropriations for the Structural Funds to be set at the level of the amounts allocated during the current period of the financial perspective. This appropriation should also cover expenditure relating to pre-accession aid and accession;
 - finally, some also pressed for the geographical allocation of amounts to be based on an objective mechanism taking account, inter alia, of relative prosperity.
- (b) The Commission proposes to allocate about two-thirds of the Structural Funds' appropriation to Objective 1, which should also cover the funding of transitional arrangements applicable to regions which would in future be excluded from Objective 1 (see point 6(g) below).

There was a majority move towards the idea that the amount of the appropriation allocated to Objective 1 could not be determined until agreement had been reached on such factors as the future financial framework, the precise contents of the new objectives, in particular of Objective 3 in particular and the conditions for applying thresholds, particularly the threshold of 75% of Community average GDP per capita for eligibility of regions for Objective 1. As a consequence, some delegations reserved their positions pending this information. One delegation thought that the question of the financial effort in respect of Objective 1 could not be considered independently of decisions to be taken on the Cohesion Fund. Others agreed in principle to the Commission proposal provided, for some of them, that that funding (two-thirds of the appropriation) ought not to cover expenditure related to the transitional periods; lastly, some delegations considered two-thirds of the appropriation to be a minimum and expressed their concern at the word "about" which could, under the guise of simpler presentation, lead to an overall reduction in the sums allocated to Objective 1.

3. *Cohesion Fund*

Without prejudice to the positions expressed by delegations on the principle of retaining the Cohesion Fund, including a mid-term review of eligibility for the criterion of a per capita GNP below 90% of the Community average, two aspects in particular of the Commission proposal gave delegations pause for thought, namely:

(a) the sum allocated to the Fund:

- some thought it difficult to state their views at this stage, given the lack of information as to how far countries receiving funding would have developed economically by the appropriate time and, thus, to what extent help would be needed, which was the only criterion that mattered; others now wondered whether, whatever the case might be, the amount was not too high;
- others believed that the new accessions threatened to exacerbate imbalances between the Member States of the Union, particularly to the detriment of the peripheral Member States, whence the need to consider increasing the sum allocated. Some thought that the increase should be substantial because the Fund provided the form of structural support best suited to States whose development was lagging behind and which best translated the concentration objective.

(b) the question of compatibility between eligibility for the Cohesion Fund and participation in the third phase of EMU

Three attitudes emerged on this issue:

- those who thought the two were incompatible, insofar as participation in the third phase meant recognizing that the objective of economic convergence had been reached, which was clearly inconsistent with the granting of aid to structurally disadvantaged regions;
- those who thought that two different approaches were involved which, in the very terms of the Treaty, had to continue to coexist after transition to the third stage of EMU, since what mattered was the distinction between nominal convergence and actual convergence. According to these delegations, the current beneficiaries of the Cohesion Fund, as long as they remained below the threshold of 90% of GNP per capita as a Community average calculated for the fifteen, and even if they fulfilled the public deficit criterion, should continue to benefit from the Cohesion Fund. In addition, these delegations stressed that to claim that there was incompatibility could have a discouraging effect, since it would mean that only those countries which made no progress could continue to receive support;

- those who conceded that in principle the two approaches were incompatible, but who thought that the serious structural handicaps persisting in the Member States concerned justified the maintenance of financial assistance, under certain conditions and subject to mid-term review of eligibility (2003) which should ensure both fairness and expenditure control. In this context, some stressed the importance of examining the question of transitional periods in the mid-term review.

4. *Structural support for enlargement*

The Commission proposes a budget of ECU 45 billion, to be implemented as of the year 2000 and shared between, on the one hand, pre-accession aid of approximately ECU 7 billion and, on the other hand, structural support for new members of ECU 38 billion.

Most delegations felt it would be premature to take up a final position on the proposed figures at this stage; however, delegations did comment on two aspects of the Commission communication:

- (a) the breakdown between pre-accession aid and support for new members under the structural policy (ECU 7 billion and ECU 38 billion respectively).

Several delegations queried the criteria chosen to justify this proportion, which appeared at first sight to be unbalanced; in fact, the cost of certain projects to be carried out by candidate countries was independent of their level of GNP and of the moment at which they would accede to the Union (in particular projects in the nuclear and environmental fields or in the field of effective frontier controls which were essential for safeguarding the interests of the current Member States of the Union); one delegation said that aid for candidate countries should be intensified under the PHARE programme; on the other hand, several delegations were opposed to financing pre-accession aid from the structural funds (as regards the allocation of pre-accession expenditure by heading – see Chapter V, point 4 below); others, finally, insisted on the need to respect the balance between the current Member States of the Union and the countries applying for accession;

- (b) the issue of absorption capacity

Some pointed out that application of the single criterion of 4% of GDP did not take account of the gap which existed between growth rates in the current Member States and those in the applicant countries, which was and would remain extremely wide; to allow for this situation, it was suggested that the 4% of GDP criterion should be adjusted in line with the growth rate (by restricting it, for example, to 3%).

5. *Thematic concentration*

On the grounds of clearer visibility and greater efficiency, the Commission proposes to reduce the number of objectives from seven to three (consisting of two regional objectives and one horizontal objective devoted to human resources), and the number and importance of Community initiatives in order to avoid duplicating main programmes.

(a) Reduction in the number of objectives

There was favourable opinion on the reduction in the number of objectives proposed by the Commission constituting a sound basis for work. However, this did not prevent certain concerns from being expressed, mainly at the absence of information as to the precise content of each Objective and particularly Objectives 2 (economic and social conversion) and 3 (development of a human resources strategy), and the adjustment of the scope of the new objectives in relation to one another. Without such information delegations felt it was difficult to give an informed opinion. They therefore asked the Commission to give details of the contents of these objectives. That said, they queried the following points:

- one delegation thought that the reduction in the number of objectives should not lead to a broadening of the eligibility criteria in Objective 1;
- some welcomed the regrouping of Objectives under a new Objective 2 and considered that eligibility should be defined broadly by reference to GDP with demarcations between rural, urban, industrial and fishing areas left to Member States;
- some wondered how grouping together under a single Objective (2) topics as diverse as rural areas and declining urban areas could be reconciled with the desire to rationalize and clarify the criteria for Community intervention. This concern led some delegations to suggest withdrawing declining urban areas from Objective 2. The same questions were posed with regard to Objective 3. With regard to the latter, one delegation considered it desirable to maintain interaction between Objectives 2 and 3 as matters stood;
- some expressed concern at the treatment of aid currently granted under Objectives 5A and 5B, or at the fact that aid to support fisheries-related activities was not clearly discussed in the Commission communication;
- some hoped that rationalizing the Objectives would contribute to eliminating some of the damaging effects of the current aid schemes, such as "job shopping", or the maintenance of economically non-profitable structures of activity which had, in the past, been tacked on to structural intervention to the detriment of the aim of achieving cohesion and balanced development throughout the Union. In this same context, one delegation insisted on adequate checks being established in order, in particular, to combat fraud effectively;
- lastly, some stressed the importance of the various forms of Community structural intervention allowing for a high level of environmental protection, bearing in mind the differing situations in the various regions of the Community.

(b) Reduction in the number and importance of Community initiatives

With regard to the reduction in the number and importance of Community initiatives, which was generally supported, the following comments were

made:

- some delegations suggested going further than the Commission proposals, either by an additional reduction in the scope of Community initiatives (abolition of rural development and human resources development which could be taken into account under the Objectives), or by quite simply abolishing this category of intervention;
- others stressed the importance that the cross-border, transnational and inter-regional dimension must necessarily represent, as well as the significance of innovation as a criterion justifying the use of Community initiatives.
- finally, one delegation said that, in any event, Community initiatives must contribute exclusively to the achievement of the general objective of all structural instruments, viz, the achievement of economic and social cohesion.

6. *Geographical concentration*

A majority of delegations welcomed the Commission proposal on the principle of geographical concentration. However, some delegations said their agreement in principle was subject to conditions set out below relating in particular to the need not to call into question the essential nature of the continuity of the cohesion effort and not to create insuperable political or economic difficulties for a Member State.

The following matters in particular gave the delegations pause for thought:

- (a) strict application of the threshold of 75% of the Community average of per capita GDP calculated for the Union of fifteen:
 - for some, stringency in geographical concentration should not automatically disqualify certain regions which played a determining role, directly or indirectly, in the overall development of a Member State; this stringency should accordingly be modulated by taking account of the difference between the situation of a poor region of a rich country and that of a richer region but of a poor country; additionally some argued that the 75% figure should only be a working assumption at this stage;
 - others stressed the mechanical statistical effects which could result from taking the new Member States ⁽¹⁾ into account, and put forward, in this respect, two opposing types of consideration:
 - = some, which emphasized the considerable differences which would exist between the beneficiaries following the next enlargement, in comparison with the threshold of 75% of per capita GDP, proposed the establishment, at a level below that of the threshold, of a modulation mechanism which would take account of the situation or relative prosperity of each Member State;

⁽¹⁾ *In this regard, the Commission proposes for the next period of the financial perspective not to take account of the GNP per capita of the new Member States when calculating the GNP per capita of the Union.*

- = some wondered whether it was possible to express the threshold of 75% of per capita GDP as an absolute value;
 - = others, wishing to maintain the continuity of efforts to achieve cohesion in the Union of fifteen, felt that ways should be considered to lessen – or indeed for some to eliminate – the impact of the mechanical effects on the regions of the Union currently eligible, of the reduction of the Community average which would result from the accession of new Member States whose per capita GDP was well below the current average.
- (b) reduction in the percentage of the population of the regions in the Union of 15 eligible for Objectives 1 and 2 (this percentage being scheduled for reduction from 51% to a figure between 35 and 40%) as from 1 January 2000.

A majority of delegations was fairly sympathetic to this proposal. However:

- for some, the reduction in the eligible population should not result in an increase in the level of per capita Community structural aid, in particular when the amount of funds allocated to Objective 1 was set;
 - for others, it would be better to reduce the level of per capita aid rather than reduce the number of eligible regions;
 - finally, others stressed that the reduction should be based on the application of eligibility criteria rather than on the fixing of a percentage population target a priori.
- (c) Complete concordance between the map of regions eligible under Objective No 1 and the map of regions assisted by Member States under Article 92(3)(a) of the Treaty and the pursuit of the greatest possible consistency between areas eligible under the new Objective 2 and areas assisted by Member States under Article 92(3)(c) of the Treaty.

Some delegations expressed concern about this aspect of the Commission proposal and called on the Commission to clarify the exact implications of the measure for the eligibility of the regions and areas concerned. One delegation was opposed to any attempt to introduce a link between these various aid systems.

- (d) the issue of current Objective 6 regions

The Commission is proposing to include the very sparsely populated northernmost regions, which are currently eligible under Objective 6, in Objective 1 provided they meet the eligibility criterion for that Objective. Those which would not be eligible under Objective 1 should benefit from special arrangements.

The following positions were taken on this proposal:

- some delegations wanted outright integration of Objective 6 into Objective 1, including its determining criteria;
- some accepted the Commission proposal as it stood;
- some accepted assimilation, though they insisted that certain conditions be met,

in particular strict compliance with the criterion of 75% of the Community average of per capita GDP, as for all the other regions of the Community;

- some considered that the wording proposed by the Commission was unclear, insofar as it did not refer to straightforward assimilation. Additional information was therefore necessary before any position could be adopted;

- some pointed out that the integration/assimilation of these regions into Objective 1 would, ipso facto, introduce a new criterion linked to geographical location and population density which, if that integration/assimilation were accepted, would be likely to have an impact on other regions of the Union;

(e) the issue of outermost regions

The Commission proposes in its document the specific assimilation into Objective 1 of the outermost regions for which a new Article and a Protocol have been included in the Amsterdam Treaty.

Some delegations insisted that these regions be included among the regions eligible under Objective 1, pursuant to the aforementioned provisions of the Amsterdam Treaty. One delegation said that in view of their specific characteristics and constraints, the outermost regions should be the subject of positive discrimination, in the light of the said provisions.

(f) other regions

Some delegations considered that the present Union's island and peripheral regions which bordered on candidate countries should likewise benefit from special arrangements.

(g) the issue of introducing transitional periods (phasing out) for regions which currently benefit from aid from the Structural Funds and which would cease to be eligible. Two attitudes emerged on this matter:

- some feared that a phasing out mechanism might constitute an indirect way of extending the eligibility of certain regions, thereby undermining the aim of concentration and control of expenditure;

- in contrast, a large majority of delegations considered that it would be necessary to have transitional periods. However, there remained certain differences as to their scope:
 - = some took the view that they should be of limited duration (as far as possible no longer than two years) and that provision should be made for conditional, equitable and transparent aid; some suggested that the aid provided in this framework should be gradually decreased according to a set timetable;

 - = some thought it important to specify that the transitional periods for Objectives 1, 2 and 5B would all have the same duration and that they would enable identical measures to be applied in all cases where situations

were comparable;

- = for others it was essential that the transitional measures should be sufficiently adjusted in duration and content so as not to jeopardize continuity in the catching-up process of the less favoured regions. In this connection some delegations stated that, in view of this necessity, the transitional periods should be long for all regions but with a special modulation for the peripheral regions whose role as motor of development is decisive for the whole of a Member State.

7. *The 10% reserve*

Several delegations opposed the Commission proposal to create a 10% reserve to be allocated mid-term to the regions most efficient in their use of Community structural aid in the light of verifiable results achieved, including with respect to the implementation of the budget.

III. INTERNAL POLICIES

The delegations' welcome for the general objectives identified by the Commission was tempered by some of the positions expressed during discussions on both the desirability and presentation of the priority measures and the method to be adopted for determining those priorities.

Regarding the desirability of determining priority measures, there was a difference of view between:

- those who felt that at this stage it was not possible – and even undesirable or pointless – to determine priorities; of this group, some thought that the only priorities acceptable in this area were those arising from the Treaty itself;
- and those who took the opposite view that the Union's priorities should be set now, it being understood that there was no unanimity on the criterion of the "added value" of Union policies put forward in support of priorities. Regarding the presentation of the priority measures:
 - = some favoured as complete a list as possible of the Union's priorities over the coming period, taking into account the content of the Amsterdam Treaty. This meant adding culture, public health, consumer protection, environment, audiovisual policy and telecommunications in particular to the indicative list of priorities proposed by the Commission; some urged that priority also be given in future to the introduction of the objective of sustainable development into certain Community policies, in particular, the CAP structural policies, energy policy, transport and environment-friendly technologies;
 - = others were in favour of identifying certain general political objectives of greater concern to the public such as the effective implementation of the internal market and questions of security, free movement of workers, the environment, economic and social cohesion, employment. In this connection, some particularly stressed that due account must be taken of the conclusions of the extraordinary European Council on employment on 21 November 1997. Some also felt the need to emphasize economic competitiveness and the definition of the conditions for lasting, job-creating growth.

Three trends emerged regarding the method to be adopted for defining priorities:

- firstly, those who felt the need to await the outcome of discussions on the financial perspective and who recommended fixing priorities within a predetermined appropriation;
- secondly, those who preferred the opposite approach based on first deciding the content of the priority measures, which should then determine the level of funding to be provided;
- lastly, those who preferred a coordinated approach enabling the priorities and the budget resources to be established simultaneously, which would ensure a more balanced result.

IV. EXTERNAL POLICIES

The list of areas of particular interest among the Union's external policies, as defined by the Commission in its communication, was well received. Some delegations pointed to the role given by the Treaty of Amsterdam to the European Council, which may, when it decides upon common strategies in areas where the Member States have major common interests, establish the thematic and geographical priorities of the Union. Nevertheless, two aspects gave rise to more opposing viewpoints, namely the content of the list and the principle of establishing a hierarchy of priorities:

1. Content of the list

With regard to the content of the list, the following positions were expressed:

- some delegations considered it unwise to set priorities at this juncture;
- some delegations pointed out that insofar as the list proposed by the Commission covered nearly all the Union's current geopolitical priorities, it was necessary to check whether it was indeed exhaustive and, if necessary, complete it (by including Latin America, for example);
- others pointed out that, alongside areas of special interest, room should be made for a number of major principles to be respected in the conduct of external policy, both as regards method (coherence, profile and the economic and political optimization of the Union's actions) and as regards content (defending democracy or protecting human rights). Moreover, some delegations stressed the importance of familiarizing applicant countries with the functioning of the Union's policies and the principles underlying them.

2. Establishing a hierarchy of areas

On the question of establishing a hierarchy of areas of special interest:

- some delegations were in favour and felt that it would suffice to reproduce the existing order of priorities;
- others considered it inappropriate to establish a hierarchy at this stage as it might lead to some confusion both inside and outside the Union and might conflict with the need for rapid adjustment of the Union's external policy to the world situation.

3. Financial resources

It was generally deemed to be too early to examine in detail the question of the financial resources to be allocated to the Union's external policy. Several delegations opposed any

reference to GNP growth rates, which were of no relevance to external expenditure. Another delegation considered that an increase in expenditure in real terms could constitute a positive sign that Member States were ready to transfer part of their current national expenditure to the Union's budget.

V. FUTURE FINANCIAL FRAMEWORK

1. *Ceiling on resources and evolution of expenditure*

There was broad agreement on the principle of fixing future financial perspectives for seven years (2000 – 2006). A majority of delegations was in favour of maintaining the *present ceiling on resources* for the next period, for reasons essentially linked to the need to pursue a policy of budgetary rigour and rationalization of expenditure. The discussions nonetheless revealed more or less marked differences of opinion on the extension principle itself and its scope.

- Some delegations thought that the Commission's analysis, and the proposals deriving from it concerning the ceiling and the 0,05% margin set for the end of the period to allow for such factors as the unreliability of economic growth forecasts seemed, subject to more detailed examination, to be realistic.
- Others insisted very particularly on the absolute need for budgetary rigour and rationalization of expenditure which must obtain at Union level as at national level; on that basis some considered that the Union's actual expenditure should – even at the end of the period – be well below the 1,27% ceiling, which would imply the setting of a larger margin than that proposed by the Commission. In the view of several of these delegations, the full cost of the enlargement process, even beyond 2006, should be financed within the ceiling of 1,27% of GNP.
- Others took the contrary view, believing the ceiling of 1,27% of GNP to be inadequate given the uncertainty as to number of countries which would be part of the first enlargement and its probable cost, and the needs which were already identifiable assuming policies for the Community of 15 were pursued with the same level of ambition (particularly cohesion and the CAP). They thought there was no possibility at all of the full integration of an initial group of new Member States being achieved within this ceiling. One delegation referred to the need to observe the principle of sufficient means.
- Finally it was suggested that a financial perspective should be drawn up to cover the period from 1999 to the first enlargement and that the ceiling be reviewed at the appropriate time after the first enlargement. Some thought that the revision of the ceiling to take account of enlargement should be done by the fifteen.

As regards the *evolution of the different categories of expenditure* – even though there was a fairly clear tendency to regard any attempt at quantifying the different headings at this stage as premature – the discussions highlighted the following three approaches:

- that of the delegations which felt that, subject to the general considerations concerning the 1,27% ceiling and the further assurances which the Commission was due to provide, the trend in expenditure envisaged by the Commission could be regarded as a reasonable basis from which to launch a detailed examination of priorities and needs; in this context one delegation stressed the importance of reforms of common policies leading to a reduction in expenditure;
- that of the delegations which considered that the only relevant criterion for fixing

ceilings was to make an objective assessment of needs and priorities within the different policies on the basis of merit, before determining the share of resources to be allocated to them on the basis of the results of the detailed assessment;

- that of the delegations which thought that, in any event, the implementation of budgetary discipline and of the principles of solidarity and equity in burden-sharing should of necessity form part of the financial decisions to be taken.

2. The system of own resources

The discussions revealed two major schools of thought:

- some delegations felt that the structure of own resources as defined in Edinburgh met the Union's current needs and that any change was undesirable given the political problems that ratification could pose in certain Member States and the natural evolution in the existing system towards greater fairness in placing increasing emphasis on GNP; some delegations were in favour of replacing the VAT own resource totally with a resource based on GNP;
- a number of delegations, although referring to different objectives, argued for an adjustment in the system, either, for one delegation, through the introduction of a new "progressive" resource based on per capita GNP as a more accurate reflection of the relative prosperity of Member States, or, for others, through the introduction of an autonomous tax resource.

Most delegations, however, said that they were prepared to wait until the Commission submitted its report in the autumn of 1998 on the functioning of the own-resources system before adopting a final position. One delegation recalled the Commission's undertaking to submit a report on the results of a study on establishing a new resource which, it believed, should be examined in conjunction with the report on the functioning of the system.

3. *Member States' budgetary situations*

The discussions highlighted the following positions:

- that of delegations which, evoking the conclusions of the Fontainebleau European Council ⁽¹⁾, felt that their net financial burden was excessive and supported the immediate establishment of a general mechanism for correcting the budgetary situations of Member States – including that of the United Kingdom;
- that of delegations which, according to the same logic, however, felt that the compensation mechanism for the United Kingdom should be dealt with separately;
- that of delegations which, while not ruling out examining the matter in the future, thought that the conclusions of the Fontainebleau European Council led them to consider that in terms of net financial contributions Member States' positions depended on a number of factors and in particular on the new pattern for the Union's expenditure, the impact of which was difficult to assess at this stage. These delegations took the view that any examination of this question, including the

⁽¹⁾ "Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances. However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time."

possibility of a general correcting mechanism, should be resumed on the basis of the report awaited from the Commission and when it was possible to assess the impact of the reorientation of policies;

- finally, that of delegations which challenged as contrary to the basic principles of the Union any argument based on net balances and were consequently opposed to any idea of generalizing a compensatory mechanism.

On the more specific question of *the compensatory mechanism for the United Kingdom*, three attitudes emerged from the discussions:

- that which cast doubt on the justification for such compensation and expressed opposition as of now to maintaining it or, at least, maintaining it in its present form (even before the Commission report on the operation of the own-resources system became available);
- that which more or less endorsed the Commission's view that the situation of the United Kingdom would have to be reviewed after a first enlargement when more specific information would be available regarding that country's relative prosperity and the impact of the reorientation of Community policies in general;
- the position of the United Kingdom itself, which ruled out any negative adjustment of the mechanism, observing that, given its relative prosperity, it would still be a very significant net contributor to the budget after enlargement even once its rebate had been taken into account.

4. *Financial aspects of enlargement*

All delegations considered it important to assess as accurately as possible the probable cost of the enlargement process, whether in pre-accession aid or for the integration of new Member States. Some urged in this connection that the genuine needs of the candidate countries be duly taken into account, which should be reflected in, for example, the allocation of the greatest financial support to the candidate countries least prepared for accession or by an increase in the sums allocated for pre-accession. Two questions merited more detailed examination:

- the charging of pre-accession aid; while some delegations could go along with the Commission's proposal of charging it to headings 1, 2 and 4, others wanted all such aid to be charged to heading 4 (external expenditure);
- the systematic distinction between expenditure associated with enlargement (pre-accession aid and appropriations for the new Member States) and expenditure for the Union of Fifteen. It was suggested that, to this end, provision be made for dual programming and dual entry of expenditure so that the amounts intended for enlargement could be clearly distinguished from expenditure allotted to policies for the Union of Fifteen during that period.

