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AGENDA 2000

**COUNCIL PROGRESS REPORT
TO THE EUROPEAN COUNCIL**

ANALYSIS OF PROGRESS ON THE MAIN ISSUES

(...)

E. THE NEW PRE-ACCESSION INSTRUMENTS

I. INTRODUCTION

As part of the Agenda 2000, the Commission has proposed three legislative texts to give effect to the strengthened pre-accession strategy decided by the Luxembourg European Council. This strategy is intended to enable all the applicant States of Central and Eastern Europe to align themselves as far as possible on the Union *acquis*, through accession partnerships and increased pre-accession aid. The Luxembourg European Council called for a substantial increase in pre-accession aid, which would be programmed through the accession partnerships, so as to include, in addition to PHARE, aid to agriculture and a structural instrument for funding measures similar to those of the Cohesion Fund.

II. GENERAL ISSUES

a) Overall approach

The legislative framework proposed by the Commission to give effect to the European Council conclusions involves supplementing PHARE with two additional regulations establishing an agricultural and a structural pre-accession instrument. These instruments will contribute to the objectives of, and comply with the conditions laid down in, the accession partnerships. In addition to these specific instruments, the Commission is also proposing an overall coordinating regulation to ensure that the specific instruments complement each other without overlapping and to optimise their economic impact.

Most delegations expressed support for the Commission's overall approach or were open to examining it in more detail. However, some concerns were expressed about:

- * the need for the overall coordinating regulation, given that it appeared to contain little in substance other than the establishment of a coordinating Committee for implementing the pre-accession strategy (see point (b) below);
- * irrespective of the legislative structure, the need to ensure proper coordination and coherence with the accession partnerships,
- * whether separate legislative acts were necessary. The Commission has argued that one of the main reasons for separate instruments would be to familiarize applicant countries with Union procedures and rules for administering the CAP and structural funds.

Some delegations emphasised the need for due attention to be given to the socio-economic consequences of enlargement. Others pointed to the linkage between these instruments and the Interreg programme, and cross border cooperation. The importance of coordination of the proposed pre-accession instruments with PHARE was also raised.

b) Coordination of implementation

The Commission proposes that the schemes or measures financed under the three pre-accession instruments are to be decided using three different Committee procedures, namely:

- the PHARE management Committee (type II(b));*
- the management Committee on agricultural structures and rural development (type II (a))*
- the advisory Committee on the structural instrument.*

Overall coordinatin, including fixing general guidelines and multiannual programming would be undertaken by the advisory Coordination Committee.

The Commission would itself ensure coordination with operations undertaken by the international financial institutions.

i) Type of Committee

A large number of delegations considered that, irrespective of the Committee structure envisaged (see point (ii)), it would be preferable to have management rather than advisory Committees for all sectors of the regulations, especially for operational programmes.

ii) Committe structure

Some delegations were open to examining the Commission's approach, provided it ensured optimum effectiveness in the management and coordination of aid with maximum coherence, information and transparency, although most wanted a greater role for Member States. Others considered that the proposed structure, involving a separate Committee for each instrument, plus an overall coordinating Committee, was cubersome and might run counter to the objective of a coherent and coordinated approach. Several delegations argued that a type II (b) Committee, such as the PHARE Committee, would be the most appropriate for ensuring coordination of the pre-accession strategy in order to achieve maximum effectiveness and transparency.

iii) Coordination with international financial institutions

Regarding coordination with operations undertaken by the international financial institutions, some support was expressed for the idea of coordinating such operations through the coordination Committee.

c) Complementary, programing, financial control, evaluation and reporting

A horizontal examination of these aspects in the pre-accession instruments and in the structural fund regulations has begun in the Friends Group with a view to ensuring maximum consistency in these provisions, subject to variations in objectively justified cases to take account of the specific nature of each particular regulation. It was pointed out, as an example, that the agricultural instrument provides for biennial reporting, whereas under the structural instrument this would be done on an annual basis. This work will have to continue during the detailed examination of the texts, involving relevant experts where appropriate. Account will also have to be taken of work underway on SEM 2000. As regards the pre-accession instruments, emphasis was also placed on the need to ensure that appropriate provisions were included in order to ensure effective management and control of Union funds by the management authorities in beneficiary countries.

III. FINANCIAL ISSUES

a) Source of financing

The Commission has proposed that pre-accession aid be financed from three different headings of the financial perspective: Heading 4 (the PHARE programme), Heading 1 (the agricultural pre-accession instrument), and Heading 2 (the structural pre-accession instrument). The amounts in question would be ringfenced by being entered under completely separate sub-Headings in each of the three Headings concerned. They would not be revised following any accessions over the period, with the aid concentrated on countries not joining the Union during the period.

This question is examined in detail in the report on the future financial framework (cf. section A). The question was also raised of including an article on financial amounts in the various regulations.

b) Financing of projects from a single source

In order to simplify implementation, the Commission proposes that each individual project or scheme will be financed under only one of the three instruments. In the case of integrated industrial reconstruction or regional and rural development programmes, even if they involve, as an element of the programme, investment in the fields of transport and the environment, would be financed solely by PHARE.

Delegations broadly supported the principle of single-source financing. As far as integrated programmes are concerned, it was generally considered that further clarification was required of the scope of these programmes as well as the interplay between PHARE and the other instruments. The Commission has submitted a working paper in order to clarify the scope of measures which can be financed under the respective pre-accession instrument, and give an indication of the implementation arrangements envisaged for integrated programmes to be funded by PHARE (cf. doc. SN 2211/98).

c) Allocation criteria

The Commission proposes that indicative allocation between beneficiary countries will be made by the Commission:

** for the structural instrument, based on population, per capita GDP in purchasing power parities and surface area. Adjustments would be possible to take account of implementation performance in previous years. Measures to be funded should involve at least euro 5 million.*

** for the agricultural instrument, based on farming population, agricultural area, GDP in purchasing power and specific territorial situation.*

Four general points appeared to emerge regarding allocation criteria:

* most delegations broadly supported the proposed criteria, subject to detailed drafting and to clarification of the relative weight of the different criteria in determining the overall amounts, and provided they were applied in a transparent way. For example, some delegations considered that the criterion of specific territorial situation in the agricultural instrument was too vague. The Commission indicated that this was designed to enable the Commission to take account of the situation of countries

with long external borders and border control problems. In response to delegations who requested clarification of how the GDP criterion would be applied, the Commission confirmed that the poorest countries would receive the greatest support;

* in response to delegations who recalled the Luxembourg European Council conclusions and considered that "need" should be specifically listed as one of the criteria, the Commission indicated that there was sufficient flexibility in the proposed arrangements in order to ensure that due account is taken both of need, as the European Council had stressed, and the differing ability of countries to absorb assistance. For example, regarding the 5 million euro minimum amount for structural measures, the Commission pointed out that the text allows for some flexibility, and that measures may cover a group of projects. Some delegations were not convinced by the Commission's explanations and considered that these issues merited further detailed examination.

* a number of delegations supported the possibility of adjusting the indicative allocations under the structural instrument taking account of countries' performance in implementing structural measures in previous years, although for some this was conditional on performance assessment being primarily quality rather than quantity based. Some delegations expressed their opposition to this provision. One delegation suggested extending similar performance criteria to the agricultural instrument.

* a number of delegations felt that further clarification would be required of the method to be used for reallocating available resources under the agricultural and structural instruments among the beneficiary countries when future accessions take place.

d) Forms and rate of Community contribution

The Commission proposes that, for structural operations, the forms assistance should take are: non repayable direct assistance, repayable direct assistance, repayable assistance, interest rate subsidies, guarantee fee subsidies, risk capital participation or other forms of finance. For the agricultural instrument, these would be decided under the relevant Programme.

The Commission, basing its proposals on rates applicable inside the Union, proposes that the Community contribution to eligible expenditure may amount to up to 75% of total eligible public expenditure under the agricultural instrument, and up to 85% of public or equivalent expenditure under the structural instrument.

It was felt that further detailed examination of the forms of Union assistance will be required, given that some considered that particular forms of assistance, such as subsidies, should be given a higher priority.

Some delegations indicated that the proposed rates were acceptable, provided it was clearly understood that they represented maximum amounts and would not be applied as a general rule for each project. Emphasis was also placed on the possibility of providing for variation in the rates based on factors such as recipient countries' growth rates, level of wealth and per capita GDP.

A number of delegations considered that the maximum amounts should be reduced. Some felt that such a reduction could be made if funds were combined with other sources of financing in order to ensure maximum leverage of Union funding and spread the available funds over as many projects as possible.

A significant number of delegations felt that the rates for both instruments should be aligned. Some favoured such an alignment at the lower percentage. A number of delegations also queried the need for 100% financing for studies.

IV. THE AGRICULTURAL PRE-ACCESSION INSTRUMENT

a) Objectives

*The Commission proposes that the objective of this instrument is to support for sustainable agriculture and rural development in particular by solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas and contribute to the implementation of the *acquis communautaire* concerning the CAP. The Commission proposes giving priority to measures to improve market efficiency, quality and health standards and measures to maintain jobs and create new job opportunities in rural areas, in compliance with rules on the protection of the environment.*

At this stage there were no major objections to the overall objectives for this instrument. However, on priorities of the reformed CAP. Others preferred to avoid such an express reference, since they considered that this idea was covered by the reference in Article 1 to the *acquis communautaire*. Moreover, some misgivings were expressed about the wider implications of giving priority to measures to maintain jobs in rural areas.

b) Measures

The Commission proposes in Article 2 of the regulation a series of measures eligible for funding under the instrument. This list is non exhaustive, and the regulation provides for other measures to be decided by the Management Committee procedure.

Delegations pointed to the need to ensure consistency with measures applied inside the Union under the rural development regulation. It has also been pointed out that steps need to be taken to ensure that the proposed measures did not lead to any increased production which might be contrary to the overall objectives being followed. Some argued that these measures should not lead to distortion of competition. Some have argued in favour of developing production on the basis of criteria such as ecological sustainability and competitiveness. The Commission considers that its proposal already takes due account of these concerns.

It was felt that the proposed measures would need to be reviewed in detail once the drafting work on the text is undertaken. A number of delegations considered that these measures should also be examined by agriculture specialists.

V. THE STRUCTURAL PRE-ACCESSION INSTRUMENT

a) Objectives

The Commission has proposed a structural instrument which will give priority to measures in the area of economic and social cohesion, in particular concerning environment and transport policies.

No major objections were expressed at this stage. It was noted that the wording of this provision would allow a measure of flexibility by inclusion of the words "in particular", for example to cover technical assistance.

b) Measures

The Commission proposes that assistance will be provided for environmental measures enabling the beneficiary countries to comply with the requirements of Community environment law and transport infrastructure measures which promote sustainable mobility, including the interconnection and interoperability of national networks as well as with the trans-European networks together with access to such networks. The Commission indicated that a balance would be maintained between the two types of measures.

Subject to the proviso that a balance would be struck between the two types of measure envisaged, as has been achieved with the Cohesion Fund, delegations expressed support for the proposed measures. It was noted that it was important for beneficiary countries not only to comply with Community requirements but also to actually apply them. In this context, some felt that human resource development could be a useful means of achieving this objective. Emphasis was also placed by some delegations on the need to ensure that investment in transport infrastructures was sustainable, as well as taking full account of their environmental impact.