Conference of Chairmen of the parliaments of the EU Member States
Theme: National parliaments of the EU and the financial perspective

REPORT ON THE STATE OF PLAY IN THE NEGOTIATIONS ON FINANCIAL PERSPECTIVES OF THE EUROPEAN UNION FOR THE YEARS 2007-2013

Commission proposals

Negotiations on financial perspectives have begun formally one year ago – on 10 February 2004 with the proposal of the Communication on the financial perspective of the EU by the Commission. This document remains a basis for all negotiations.

It has been further elaborated into legislative proposals that have been approved by the Commission on 14 July 2004, 29 September 2004 and 6 April 2005. The Interinstitutional Agreement as well as the proposals for individual expenditure headings have been presented – cohesion, agriculture, environment, education and training, culture, transport, external relations. At the same time proposals for the revenue side were published, i.e. proposal of the decision on own resources. The last legislative package was published on 6 April and includes proposals in areas of research and development, innovations, justice and home affairs, health and consumer protection.

Timeframe for negotiation

The planned schedule for the negotiations of financial perspective has been the following:

Spring 2004	presentation of the proposal for FP
End of 2004	agreement on main principles and guidelines for FP negotiations
Mid-2005	political agreement on FP
End of 2005	conclusion of all negotiations and approval of legislation
2006	programming and getting ready for drawing resources

Progress in negotiations

So far three presidencies have taken part in steering the negotiations on FP: Ireland, the Netherlands and Luxembourg.

Ireland (January – June 2004)

Negotiations started in the first half of 2004 under the Irish presidency. In this period negotiations focused on the overall discussions of the Commission proposal. The Ad hoc working group has been established to deal with the entire proposal. The responsibility for negotiations of financial perspective has been assigned to the General Affairs and External Relations Council (GAERC) with a substantial role thus reserved to Coreper that is responsible for preparing all meetings of this Council formation.

At the end of its presidency, Ireland has produced the Analytical Report, which has appraised the progress in negotiations and was submitted to the June European Council.

The Netherlands (July – December 2004)

The following Dutch presidency, guided by the decision of the European Council, has proceeded in the detailed discussions of all areas on the basis of legislative proposals. The Dutch presidency has used the Building Blocks approach. In each area the shared principles and issues at stake were identified. For each heading and sub-heading of the financial perspective and based on the various combination of resolving the issues at stake the Presidency proposed alternative options to the Commission proposal with different levels of expenditure. During Autumn 2004 delegations have – at the Ad hoc group or in Coreper - expressed their positions towards the proposed building blocks. Positions could have been updated in the light of new information provided mostly by the Commission in the form of fiches presented on the Ad hoc group's request

Based on these negotiations the Progress Report has been produced by the Dutch presidency and submitted to the December European Council. The report comprised on the one hand the state of play in all areas including the summary of delegations' positions and on the other the overview of shared principles and issues at stake and of building blocks. On the basis of shared principles the European Council conclusion were proposed.

Unfortunately in the last stage before the European Council the interests of some Member States have surfaced leading to a substantial shortening of the conclusions, in particular in the area of expenditure policies. The most significant points of the conclusions were the following:

- the basic principles of the EU have been emphasised - subsidiarity, proportionality and solidarity, which have to be taken into account in negotiations of the financial perspective;
- the new Financial Framework should provide the financial means necessary to address effectively and equitably future challenges. Policies proposed should also provide added value;
- the next Financial Framework should attest to determined efforts towards budgetary discipline in all policy areas within a general context of budgetary consolidation in the Member States;
- the existing measures to ensure budgetary flexibility have worked well, at this stage additional flexibility arrangements are not deemed necessary;
- the ceiling for the own resources at the current level of 1,24% of EU GNI shall be maintained. The Commission and the Council shall continue the examination of all issues concerning the own resources, including a possible simplification of the system;
- further work on the Financial Framework should take full account of the range of positions of Member States and the Progress Report including the building blocks and issues at stake and comply with the timeframe of the Multiannual Strategic Programme, including the aim of reaching political agreement by June 2005;
- the incoming Presidency is furthermore invited to establish appropriate contacts with the European Parliament.

Luxembourg (January – June 2005)

From the start of this year the Luxembourg presidency has taken over. At the beginning, negotiations on financial perspective have continued mostly on technical level. The Friends of Presidency group has been set up (as a successor of the Ad hoc group) progressively dealing with all issues at stake identified in the Progress Report by the Dutch presidency. Following the discussions in Friends of Presidency sub-headings 1A (Competitiveness for growth and employment) and 1B (Cohesion for growth and employment) were discussed at General Affairs Council (GAERC).

Substantial negotiations have only begun with the presentation of the negotiating box on 10 March at Coreper and subsequently on 16 March at GAERC. The negotiations have thus entered a new phase that should be concluded by reaching political agreement at the European Council on 16-17 June this year.

Possibility to reach the agreement in June 2005?

The views on the possibility to reach the agreement on financial perspective differ a lot. Probably it would be possible to reach the agreement on the expenditure side. There is still variety of Member States' positions as regards the overall level of the budget – from the "letter of six" signatories[1], who ask the financial perspective to be at the level of 1% of EU-27 GNI, to the southern Member States, that consider the Commission proposal for financial perspective of 1,26% EU GNI as a minimum. Generally it is understood that cuts will be needed and that the final agreement will have to be found somewhere in-between. Then the question is only where and how the cuts should be made. Should all headings be decreased and have all countries affected or perhaps should the allocation methodology be adjusted and have differentiated impacts on Member States?

The substantial political issue is the revenue side of the EU budget and especially the correction mechanisms. The agreement on own resources is to be unanimous and the United Kingdom still considers its correction legitimate. All other MS oppose this correction - most of them refusing any correction mechanism and a few, especially those that are currently taking advantage of decreased payments to UK correction, asking for a generalised correction mechanism.

This issue can hardly be solved before the elections in the UK (5.5.). Subsequently there will not be enough time until the June European Council (16.-17.6.) to find a solution to such a delicate issue.

Hence the agreement will very likely be postponed. As the UK will hold the succeeding presidency the agreement could not be reached until the Austrian Presidency at the beginning of 2006. The very latest deadline for agreement is the end of 2006 when Finland will preside over the EU. However, it would noticeably delay the preparation and so the use of the funds after the 2006.

The Negotiating Box

The Luxemburg Presidency presented the negotiating box in the form of European Council conclusions – that means in a form of a political agreement. So far it includes a lot of open questions and deliberately it does not include any figures. From the beginning of April the intense political negotiations have started especially in the Committee of Permanent Representatives (COREPER) and subsequently in General Affairs Council (GAERC). Very influential should be the Sunday meeting of foreign ministers (Ministerial Conclave) that shall be held on the eve of each GAERC Council.

The Czech Republic's priorities

The government approved the Czech Republic's position on financial perspective on 5th May 2004.

The Czech Republic considers the overall financial framework proposed by the Commission as the maximum it can accept. It is ready to discuss possible savings in all financial perspective headings on the condition that it will not harm the new Member States whose revenues are limited already by the Commission proposal.

[1] Prime ministers of six member states (UK, DE, AT, SE, NL, FR) signed a letter to Commission President Romano Prodi in December

The main Czech priority is cohesion policy – the 1B subheading Cohesion for growth and employment. The funds have to be allocated where they are most needed and the main objective of cohesion policy to decrease the disparities among regions within the EU has to be respected.

The Czech Republic emphasises the Lisbon goals that should be supported from all headings and especially from 1A subheading – Competitiveness for growth and employment. But only activities with European added value should be supported and the access to the funds has to be fair for subjects from all Member States.

As regards the revenue side of the budget, the Czech Republic prefers the system as simple and transparent as possible. That is why it rejects any correction mechanisms and wants the VAT resource to be replaced by the GNI resource.