



Brussels, 24 November 2004

BACKGROUND ¹
ECOFIN COUNCIL
(BUDGET)

Brussels 25 November 2004

The ECOFIN Council will discuss on the budgetary aspects and in particular on the second reading of the draft budget 2005. The Council will start at 10h00 with the presentation of the Annual report 2003 by the Court of Auditors. Then, it will be focused on budgetary issues with the second reading of the 2005 budget. After the preparation of the conciliation meeting with the European Parliament, the Conciliation meeting itself will take place at 12h00.

The Conciliation meeting is a decisive one in the sense that a global compromise should be agreed in order to finalise the 2005 budgetary procedure.

After the conciliation meeting the Council will examine the Council session will continue with the examination of the preliminary draft Amending Budgets N°s 9 and 11 for 2004, Amending Letters N°s 1, 2 and 3 to the Preliminary Draft Budget for 2005 and if needed the proposal for two Decisions on the mobilisation of the flexibility instrument and on the revision of the Financial Perspective 2000-2006, so that the package agreed with the European Parliament can be voted on by the Council.

A press conference will be held at the end of the session (+/- 17h00/18h00).

¹ This note has been drawn up under the sole responsibility of the Press Service.

Draft Budget 2005

1. Main results of the European Parliament's first reading

At its meeting on 28 October 2004, the European Parliament examined in first reading the draft budget and voted a number of amendments and suggestions of changes.

The amended draft budget completed with changes suggestions amounts to EUR 117 195 million in commitment appropriations and EUR 111 266 million in payment appropriations.

Following the European Parliament's first reading of the Draft Budget for 2005, payment appropriations correspond to 1.05 % of Community GNI.

In general terms, the following main points have emerged from the results of the first reading of the budget by the European Parliament:

- major increase in *payment appropriations* in relation to the 2004 Budget (+ 11.5 %), in particular to further the absorption of commitments outstanding (RAL);
- creation of "*performance facility*" under Headings 3 and 4 of the Financial Perspective with the placing in the reserve of 15 % of the appropriations for administrative management and placing in the reserve of 10 % of administrative expenditure under Heading 5, to be released on the basis of improvements in the management and the implementation of EU policies;
- voting of two "asterisk amendments" under Heading 3 (EUR 54 million in c/a for Decentralised Agencies) and under Heading 4 (EUR 190 million in c/a for Iraq) going beyond the existing ceilings of the Financial Perspective, for which it therefore asks for negotiations under the provisions of the IIA.

With regard to the *common agricultural policy* (Heading 1 of the Financial Perspective), the European Parliament globally restored the Preliminary Draft Budget, while singling out a limited number of budget lines. The total for appropriations under Heading 1 is therefore EUR 50 722 million in commitments and EUR 50 160 million in payments. The global margin below the Heading 1 ceiling is EUR 717 million.

As regards *structural operations* (Heading 2 of the Financial Perspective), the European Parliament went beyond the payment appropriations proposed in the Preliminary Draft Budget (+ EUR 800 million). Appropriations therefore amount to EUR 42 378 million in commitments and EUR 36 219 million in payments.

As regards *internal policies* (Heading 3 of the Financial Perspective), the European Parliament used almost all the appropriations available under that Heading's ceiling in order to reinforce a number of budget lines. It also approved a number of preparatory measures and pilot projects. In order to respect the existing ceiling of Heading 3, it voted an amendment reducing appropriations for Decentralised Agencies together with an "asterisk amendment" asking for an additional funding above the existing ceiling. As a result of the European Parliament's first reading, commitment appropriations amount to EUR 9 012 million and payment appropriations to EUR 7 880 million. The margin below the Heading 3 ceiling is EUR 0.09 million.

Regarding *external actions* (Heading 4 of the Financial Perspective), the European Parliament used all the appropriations available under that Heading's ceiling in order to reinforce its traditional priorities. It also reduced CFSP appropriations, bringing them back down to a lower level than the one of the 2004 Budget and the 2005 PDB. It did not vote any appropriations for Iraq while asking by means of an "asterisk amendment" an additional financing for Iraq above the existing ceiling. The total amount approved by the European Parliament for external actions is therefore EUR 5 119 million in commitment appropriations and EUR 5 322 million in payment appropriations. There is no margin left under Heading 4 ceiling of the Financial Perspective.

With regard to *administrative expenditure* (Heading 5 of the Financial Perspective), the European Parliament approved a set of amendments on the budgets of the various institutions. For the Commission, it increased the appropriations and accepted all the posts requested by the Commission while placing some of them in the reserve. With regard to the other institutions, it increased appropriations of each of them. The total of appropriations for Heading 5 therefore amounts to EUR 6 357 million. The margin below the Heading 5 ceiling is EUR 3.2 million.

With regard to *pre-accession aid* (Heading 7 of the Financial Perspective), the European Parliament went beyond the payment appropriations proposed in the Preliminary Draft Budget. Total commitment appropriations amount to EUR 1 856 million and payment appropriations to EUR 3 576 million.

2. Outcome of the Committee of Permanent Representatives' discussions (COREPER)

The Coreper unanimously confirmed on 18 November the outcome of the budgetary Committee.

In assessing the outcome of the Parliament's first reading of the Draft Budget for 2005, the Committee was guided by the following principles:

- it ensured compliance with the annual expenditure ceilings set by the Financial Perspective;
- it adopted a limited and controlled growth of the volume of payment appropriations by maintaining the agreed level of payment appropriations of the Council first reading, taking into account in particular the level of surpluses of the past years and the constraints upon national budgets;
- it ensured compliance with the relevant provisions regarding the placing of appropriations in reserve, the classification of expenditure, legal bases, preparatory measures and pilot programmes; in this context, it restated the Council's opposition to the European Parliament using conditional reserves in breach of the Financial Regulation.

It also restored the first reading of the Draft Budget for Title B7-1 (EDF), since the inclusion of funding, or even just a budgetary structure to cover it, would not have the necessary legal basis and would therefore not be justified. It also constitutes, by its very nature, compulsory expenditure;

- it did not include, at this stage, the appropriations for the prolongation of the PEACE II programme, as proposed in Amending Letter No. 1/2005, pending an agreement (in conciliation) on the appropriate means for its funding.

The Committee agreed on the following positions:

- a) with regard to *CAP expenditure* (sub-Heading 1a of the Financial Perspective), to reinstate the amounts retained in the Draft Budget established by the Council and not to accept Amending Letter No. 3 apart the changes of nomenclature.

- b) to maintain the Draft Budget established by the Council with regard to *rural development expenditure* (sub-Heading 1b of the Financial Perspective);
- c) to maintain the Draft Budget established by the Council with regard to *structural operations* (Heading 2 of the Financial Perspective).
- d) to accept two amendments relating to *internal policies* (Heading 3 of the Financial Perspective), by putting the amount for anti-pollution measures in reserve and reducing appropriations for Decentralised Agencies, and to maintain the Draft Budget established by the Council for other budget lines.
- e) regarding *external actions* (Heading 4 of the Financial Perspective), to maintain the Draft Budget established by the Council. It also accepted Amending Letter No. 1/2005 concerning Croatia and Amending Letter No. 3/2005 regarding International Fisheries Agreements;
- f) with regard to *administrative expenditure* (Heading 5 of the Financial Perspective), to maintain the Draft Budget established by the Council apart from amendments to the European Parliament budget section which were accepted.

It also accepted Amending Letter No. 2/2005 concerning the creation of Executive Agencies.

- g) to maintain the Draft Budget established by the Council with regard to *pre-accession aid* (Heading 7 of the Financial Perspective) and to accept Amending Letter No. 1/2005 regarding Croatia. It also accepted Amending Letter No. 1/2005 as regards the assistance to Northern Cyprus, pending the agreement on the legal base and merging it with Amending Budget No. 9/2004 related to the same issue.

- h) The outcome of the Committee's discussions is summarised in the table below:
EUR million

| Heading | 2nd reading in the Committee including LA 1/2/3 to DB | | % variation in relation to the 2004 Budget | | Remaining margin under present FP |
|--------------------------------------|---|------------|--|----------|-----------------------------------|
| | Commitments | Payments | Commitments | Payments | |
| 1. Agriculture | | | | | |
| 1a. Market expenditure | 42 834.45 | 42 834.45 | 6.4 | 6.4 | 1 763.55 |
| 1b. Rural development | 6 841.00 | 6 279.40 | 4.7 | 15.3 | 0 |
| Total | 49 675.45 | 49 113.85 | 6.2 | 7.5 | 1 763.55 |
| 2. Structural operations | 42 378.49 | 32 396.02 | 3.3 | 5.1 | 62.50 |
| 3. Internal policies | 8 881.09 | 7 660.23 | 2.0 | 2.0 | 130.91 |
| 4. External actions | 5 039.60 | 4 976.18 | -2.6 | 0.5 | 79.40 |
| 5. Administration | 6 300.43 | 6 300.43 | 2.9 | 2.9 | 59.57 |
| 6. Reserves | 446.00 | 446.00 | 0.9 | 0.9 | 0 |
| 7. Pre-accession aid | 2 081.00 | 3 025.09 | 20.1 | 5.9 | 1 391.00 |
| 8. Compensation | 1 304.99 | 1 304.99 | -7.4 | -7.4 | 0.01 |
| Grand total | 116 107.05 | 105 222.79 | 4.22 | 5.43 | |
| <i>compulsory expenditure</i> | 45 742.79 | 45 783.81 | | | |
| <i>non-compulsory expenditure</i> | 70 346.26 | 59 438.98 | | | |
| Payment appropriations as a % of GNP | | 0.99% | | | |

3. Preparation of the conciliation meeting with the European Parliament (25 November 11h00)

Following the triologue (Parliament, Council, Commission) held on 11 November, the conciliation meeting will mainly deal with the following items of the 2005 budget:

- At this stage, both arms of the Budgetary Authority, the European Parliament and the Council have concerns related to the financing of some of their respective priorities in 2005.

For the Council, it is the issue of the *PEACE II programme* to be financed under Heading 2 of the Financial Perspective (EUR 60 million). During the various dialogues, the European Parliament asked for additional funding above the existing ceilings of Heading 3 (for *Decentralised Agencies*, EUR 54 million) and Heading 4 (for *Iraq*, EUR 190 million).

- Regarding more specifically Heading 4 on External Actions, the appropriations for the *CFSP budget* should be subject of an agreement. The Council intends to maintain its first reading (EUR 62.6 million).
- The Council also needs to agree with the European Parliament on the financing of the assistance to *Northern Cyprus and Croatia under Heading 7* of the Financial Perspective. On this issue, the Council could follow the Commission's proposal both on the Heading of the Financial Perspective and on the amounts.
- Regarding *Heading 5 on administrative expenditure*, the Council needs to secure the savings coming from the adaptation of salaries and pensions in 2005 through a statement on an Amending Budget in 2005. Amending Letter No. 2 on Executive Agencies should not be a controversial issue.
- The last issue that I would like to mention, which is the most important for the Council, is the *level of payment appropriations* for 2005.

That means, in particular the maintenance of the Council's first reading as regards *agriculture* and an agreement on *Amending Budget No. 11* on payments for Structural Funds in 2004.

4. Second reading by the Council

After the meeting with the European Parliament, it is foreseen that the Council, on the basis of the preparatory works of COREPER (see point 2) and of the agreements reached with the European Parliament during the conciliation meeting, reaches an agreement on the second reading of the general budget for 2005.