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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

Financial Perspectives 2007 - 2013

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In February 2004, the Commission laid out a political project for the Union to tackle the key challenges facing Europe and its citizens until 2013. Its objective was to launch a forward-looking debate on the European Union's goals, and the tools required to make these goals a reality.

If action is to be in place by the target date of 1 January 2007, the debate now needs to move into a new phase. Attention needs to shift to the practical measures required to put the political framework into practice.

To this end, the Commission has been working to develop a set of detailed policy proposals. These proposals make concrete the principles contained in the February Communication: they pursue clear political objectives; they offer real added value; they reflect a process of simplification and respect principles of good governance.

Many of these proposals are now ready. So this is a good moment to take stock of the work done since February, recall the value added of the EU action as well as expenditure required to further the political project proposed by the Commission for 2007-2013, and explain how the delivery instruments of this project will be simplified and rationalised. This is the purpose of this paper.

The paper is accompanied by the first batch of detailed proposals setting out the legal framework for key policy areas. Other proposals will follow, covering areas including external relations, environment, research, and freedom, security and justice.

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1. MOVING TOWARDS A DECISION

The debate with the Council and Parliament

The adoption of the 10 February Communication “Building our common future, policy challenges and budgetary means of the enlarged union”¹ was the starting point for a decision on the new financial perspectives. It gave the Council and European Parliament an opportunity to examine the policy proposals made by the Commission. In April, the European Parliament adopted a resolution which kept the focus on the Union’s political priorities. In parallel the Council proceeded to a first discussion of the Commission’s Communication and the Irish Presidency produced an analytical report which highlighted some of the key areas for further discussion. At the European Council in June, it was agreed to continue work on the issues identified in this report, in particular:

- the need for a stricter prioritisation between different calls on spending;
- the level of expenditure required to meet Member States’ ambitions for the Union;
- a deeper analysis of the value added by EU expenditure.

The Commission welcomes these first reactions to its Communication and to the priorities it had identified.

Building on this debate, the Commission intends to spell out in more detail its analysis of the value added of the proposed actions and of the proposed governance instruments, to allow Member States to move the debate forward. The current Communication and the adoption of legislative proposals are further input to this discussion.

It is worth recalling some of the starting points of this debate, which determine the priorities set by the Commission in its proposal:

- **The EU Budget is limited in size.** Compared to national budgets which take up an average of around 45% of national income, the EU Budget is only a little over 1%. The Commission did not propose any change in the ceiling on resources to be determined at EU level, which remains at 1.24% of gross national income, but only an increase in the resources used within that ceiling. Mobilising this margin became necessary because of the increasing responsibilities of the Union and of the cost of successive enlargements: against this background, it should be noted that the increase rate of the EU budget over the last 7 years was half of the increase of the Member States budgets.
- **Many of the political decisions which will determine the next Financial Perspectives have already been taken. These already set clear spending requirements:**
 - The current phase of enlargement will add 5% to the Union’s GDP – and to its revenues – but with 30% extra population. It follows that expenditure will increase more than revenue. For example, enlargement means 4 million additional farmers, an increase of 50%, and a doubling of income disparities between rich

¹ COM(2004)101

and poor. The Budget is expected to support the Lisbon strategy and the transformation of the EU economy towards competitiveness and innovation;

- The agreement reached on agricultural financing to 2013 already determines a large share of the EU Budget;
- The European Union is to take on new tasks at EU level, in particular in the area of freedom, security and justice to deal with new security threats and crises;
- The need for Union to act outside its borders – and the expectation that it will do so effectively – has grown, at the same time as the stability of neighbouring countries has become more vulnerable.

The political consensus for action

The proposals made build on the work of the Council and the European Parliament to develop a clear vision of Europe's future. There is a broad political consensus about where the Union must act; this is reflected in the Treaty and the Constitution, in European Parliament resolutions, and in European Council conclusions. Core goals like employment, sustainable development, security and an effective world role are firmly established:

- The Single Market has given European economies a real opportunity to add an extra dimension to growth and prosperity. With Europe's growth potential slipping from 3% to 2% in the space of a few years, economic performance must be improved. Unemployment remains at unacceptable levels, and the risks of social exclusion are increasing. Where EU liberalisation brings change, the EU must help to smooth transition. Enlargement has brought a widening gap between the richer and poorer Member States which saps the vitality of the European economy.

To achieve growth and reduce disparities, action is needed at every level. This imperative underpins the Lisbon strategy, but so far, the results have fallen well short of expectations. A new impetus and a new direction must be found to make Europe a dynamic knowledge-based economy; and in parallel to reinforce the Union's cohesion in the wake of enlargement.

- Europe is rich in resources. European society has been shaped by its landscapes, its waters, its countryside, and the resources they bring. The challenge is to manage and protect these resources for current and future generations. The role of the European Union in this field is clear. The food Europe produces circulates in a single market, and needs to be maintained at a high level of quality. Environmental imperatives must be tackled on a continental and global scale.. It is no coincidence that these have long been amongst the core common policies of the Union.
- The EU is now called upon to address concerns which go to the heart of citizens' interests. EU citizenship has so far been a question of values: these need to be translated into action. Organised crime and terrorism are cross-border threats. Illegal immigration can only be tackled by working together. The Single Market automatically requires EU action on public health, food safety and consumer interests. Increased diversity provides opportunities which demand a collective response. In all these areas, action is indispensable at the European level.

- The weight of the EU is impressive: more than 450 million inhabitants, a quarter of world output, a leading trade power, the biggest aid donor. Against this background, the outside world is constantly testing the EU's ability to act or react as a political entity. The EU faces the crucial choice of whether to accept a responsibility to lead: if it does so, its financial and political obligations vis-à-vis its partners and neighbours will be immense. But can it isolate itself and refuse to take up the challenge? Working together and speaking with one voice, the Union can bring to bear a unique mix of policy levers: aid, trade, economic cooperation and political dialogue.

The cost of inaction is high. A failure to address problems and inject solutions into the European economy now would risk a downward economic spiral. A failure to conserve and manage natural resources would mean bequeathing extra costs to future generations. A failure to address citizens' concerns for security and quality of life would bring both disillusionment and danger. A failure to make external policy more effective would squander the opportunity to project and protect European values and to promote peace and development worldwide.

Making a reality of political goals

All available levers must be harnessed to make these goals a reality: national action, Community law, coordination, and public spending through the EU budget. The task for the Union's policy-makers is to ensure the right combination at the right time. The objective of the Commission's proposal is not to transfer funds to the EU level as an end in itself. The return on investment depends on targeting the right objectives at the right level. National action should be chosen when this will bring the best results: EU-level action when most effective. Where a euro spent through the EU Budget will bring more return than a euro spent at national level, this is the best way to offer value for money to the taxpayer. Pooling national resources at EU level can bring major savings for national budgets.

There are many Union instruments where little or no funding is required. In some areas, the Union's task is to ensure a fair and effective regulatory framework for action, as in competition policy, the Internal Market or the environment. This work is essential to the Union's political goals, but little funding is involved.

However, many EU policies must be accompanied by financial resources if they are to be effective. To expect more Europe for less money is simply unrealistic. New policy areas at the EU level imply new financial requirements.

The Commission has examined where spending is a necessary part of the policy mix. It has ensured in its proposals that the size and nature of the expenditure is proportionate; and that the policy is managed to bring the best return on the investment. Where these tests are met, policy must not be deprived of the resources needed to deliver effectively.

The EU Budget is limited in size, but its expected impact is major. Compared to national budgets which take up an average of around 45% of national income, the EU Budget is just a little over 1%. National budgets have been rising, with a rate of increase in national budgets more than double that of the EU Budget over the past seven years. The Commission proposes a moderate increase in the resources available to the Union to meet the above challenges and commitments. The Commission will assess regularly, and in any case by 2010, the required payment appropriations for the period beyond 2013 in order to ensure an adequate evolution of payment with respect to commitment appropriations. This assessment will take account of

the actual use of commitment and payment appropriations, as well as of the forecast of the EU's GNI and of the use of appropriations.

2. THE VALUE ADDED OF THE COMMISSION'S PROPOSALS

The Commission proposes substantial increases in expenditure in certain policy areas for the period 2007-2013. If the Commission makes such proposals at a time of budgetary rigour, it is because these increases are essential to achieve EU objectives and to meet commitments. A failure to match commitments to act with the necessary resources required is a recipe for public disillusionment about Europe.

The full potential of the European Union, both inside and outside its borders, must be unlocked. This means tackling factors which inhibit its ability to act:

- **Lack of connections:** the vocation of the single market is cross-border trade, pan-European enterprises, freedom to travel throughout the Union. However, in many areas (education and research; transport, energy, and information technologies infrastructure and service systems; financial services; customs, civil protection, law enforcement) national systems remain largely fragmented, missing links are left, and mobility is impaired. As a consequence the benefits from the freedom of circulation fall well short of their potential. This impedes the effectiveness of action.
- **Lack of European perspective:** too often, national governments cannot deal properly with cross-cutting and external issues, because the political and financial returns on their investments (e.g. in research or cross-border educational programmes, intermodal transport facilities, management of external borders, environment or health emergency programmes and systems) are shared across borders, often Europe-wide, while the costs are borne solely by the government financing the action; and because cross-border actions carry significant additional coordination problems and costs. This results in underprovision of critical services, and at the same time in a waste of resources and uncoordinated efforts, impeding the efficiency of action.
- **Lack of synergy between objectives and actions:** objectives are agreed at EU level, and their delivery commits the EU and its Member States to act. However, there is no organised, systemic complementarity in the different levels of action. So the Union fails to deliver the best results.

The Commission therefore proposes that expenditure in the next financial perspectives should address these shortcomings head-on:

- Necessary investments to create the missing links, connect Europe and enable mobility.
- Reduce the pressure on national budgets by pooling resources and expertise better at EU level.
- Use EU expenditure more to complement, stimulate, and catalyse the delivery of objectives. This requires an effective synergy between the tasks completed at different levels of the EU.

In the light of the above, the Commission has tested the value added by proposed expenditure in all policy areas concerned by the political project for the period 2007-2013. To perform this test, the Commission has used the following criteria, in order to address the problems highlighted above:

- Effectiveness: cases where EU action is the only way to get results to create missing links, avoid fragmentation, and realise the potential of a border-free Europe.
- Efficiency: cases where the EU offers better value for money, because externalities can be addressed, resources or expertise can be pooled, an action can be better coordinated.
- Synergy: cases where EU action is necessary to complement, stimulate, and leverage action to reduce disparities, raise standards, and create synergies.

2.1 Effectiveness: Results can only be achieved through action at EU level

The Union's common objectives can only be met through a partnership between national and European level. National public spending can be directed to bring huge benefits to citizens, increasing the vitality and durability of national economies through public services, education and infrastructure; offering internal and external security; and responding to society's choices across the full range of policy. But there are limits to the effectiveness of national action. Gaps are left which only the EU can fill. In order to reach its objectives, from the very outset the Treaty assigned a central role to fully-fledged common policies such as competition, trade, transport, agriculture and fisheries, and more recently EMU. There cannot be a true internal market and a customs union without precise rules to establish a level playing field. Without harmonising the great diversity of Member State policies, internal border controls would have had to be maintained, the EU could not have spoken with one voice in international trade and sustainability would have suffered in a downward spiral of negative competition.

- The European Union offers a unique opportunity to inject knowledge into the skills base. Different strengths and different traditions give Europe an opportunity to harvest real gains from pooled experience in **education and training**. But this potential is best unlocked through mobility: and mobility can only be effectively handled at EU level. It cannot be delivered unless there is an EU-wide network capable of turning the strong demand for student mobility into reality.

Human capital is one of the major determinants of growth. One additional year of schooling can increase aggregate productivity by 6.2% for a typical European country. Yet over the period 1995-2000, public investment in education and training as a proportion of public spending fell in most Member States. Everything must be done to lever the best effect from public spending. Action to support mobility will generate exchanges on a sufficiently large scale to have a real economic impact, adding an extra dimension to the skill set of the workforce. Such a scale would be provided by action to cover some 10% of university students through placements.

- The fact that complex cross-border action can only be properly handled at EU level – because of the mismatch between the distribution of (national) costs and (widespread) benefits, and because of the additional hurdles of developing cross-border infrastructure projects – was confirmed in the recent decision of the Council and the European Parliament to identify 30 priority transport projects under the Trans-European Network programme. The development of effective **transport networks** is central to a successful

economy. Competitiveness gains in other sectors can be squandered if infrastructure is dogged by problems like congestion. As the European economy has become more integrated, the costs of poor infrastructure have grown and the cross-border deficiencies have become more obvious. Allocating resources at European level is the only way to redress the natural preference for directing national spending to schemes which start and finish within national boundaries. It also provides an opportunity to help the less-developed economies of Europe to develop infrastructure of benefit to all.

The Göteborg European Council in 2001 put particular emphasis on encouraging a shift from road to more environmentally-sustainable transport modes. Action to promote inter-modality would focus on tackling road congestion in cross-frontier bottlenecks across Europe. Actions building on the existing Marco Polo programme are estimated to take some 36 million long-distance truck journeys off the roads: this means that every euro spent would mean 6 euros of savings in terms of reduced pollution and accidents.

- The very fact of European integration means that the advantages accruing to one Member State from its external operations also benefit the others and clearly justifies intervention at EU level, the EU alone also having the full range of available instruments in dealing with third countries at its disposal.

Enlargement is a clear example: helping candidates to bring their regulatory framework in line with EU standards requires a significant effort at EU level, even if it means calling upon Member States' experience in the process (e.g. twinning). Security and migration are other examples, as well as the setting of norms and standards and the external projection of EU internal policies (such as biodiversity, climate change, corporate governance...).

In the Western Balkans, the EU tackled both the crisis and the need for stabilisation with a degree of efficiency unlikely to be reached by the combined action of individual Member States. It has used a mix of political dialogue, a tailor made favourable trade regime, extensive financial programmes, cooperation in the field of justice, and democratic stabilisation measures.

An example of where the potential falls short is in international financial institutions. Although Member States are a majority in the Executive Board of the IMF and the World Bank in terms of numbers, they exercise much less influence than the United States. Speaking with one voice and acting together is essential to increase visibility and influence.

2.2 Efficiency: EU action offers better value for money

EU action can also be justified on value for money grounds. One euro spent at EU level can offer more than one euro at national level. In addition, uncoordinated spending at national level to reach common objectives is a waste of money. In many cases, pooling resources and expertise is an efficient way to make savings, and reach at the same time the critical mass required to deliver certain key objectives. Some examples are:

- The link between a strong **research** capacity and a vibrant economy is clear: in 2002, the European Council fixed a target of 3% of GDP to be devoted to research by 2010, including 1% from the public sector. Research on the scale of the EU can offer better value for money than nationally-funded research, and can have a powerful leverage effect on private funding, stimulating large technological initiatives and the development of European poles of excellence in highly competitive fields such as information and

Communication technology, biotechnology and aeronautics. As the complexity of research and the critical financial mass required increases, no Member State acting in isolation can create the minimal, critical mass. The economies of scale offered at EU level become more significant and the benefits of linking specialists across borders more clear.

EU research policy can support key research infrastructures of European interest on the scale of the EU, developing projects such as large lasers and neutron sources facilities and developing EU-wide bio data-banks in genomics. As one example, 52 laboratories in 20 different Member States have been networked to work together on Transmissible Spongiform Encephalopathies. The results can be picked up and built upon by public and private sector operators throughout the EU.

- The pooling of precious resources offers real value for money. For example, each Member State has civil protection forces and health emergency units on standby and ready to intervene at very short notice. The sunk costs of these forces are often very high, with specialised equipment and a high level of training essential. For a relatively small investment, EU coordination makes it possible to draw upon available capabilities for cross-border prevention and emergency actions at the required speed and to allow efficiency gains for national budgets. This helps improve the effectiveness and reduce the costs for each Member State in reacting to natural disasters or other crises and bringing immediate help to victims to overcome the immediate consequences of the crisis. Moreover, the budgetary impact of providing short-term relief and taking emergency measures is generally very high. The **Solidarity Fund** is a way for the Union to help Member States to face up to the challenge of crisis situations.
- Sometimes, actions can be on such a scale and of such complexity that the pooling of action at EU level is the only way to achieve the critical mass required. This was the thinking behind the Galileo project: that the investment required to develop **satellite navigation systems** was so significant that a joint effort was essential. This effort now needs to be continued into the next stages of the project, deploying Galileo and putting it to work.
- It is now clearly recognised that the challenges posed by **immigration and asylum** can no longer be met adequately by national administrations alone. The abolition of internal border controls must be accompanied by common measures on the effective control and surveillance of the Union's external borders. Improved operational cooperation involving the pooling of available resources in areas like training and equipment will ensure a more efficient use of public funds. In addition, EU action towards an integrated management of our external borders is the only way to achieve a fair burden-sharing between Member States, some of whom face the heavy burden of long frontiers or surges in migration. A degree of burden-sharing will reinforce solidarity between them and bring overall value for money benefits through a more credible and fairer policy. This is at the heart of the sustainable migration policy agreed at the Seville European Council.

The EU faces the challenge of managing land borders stretching to some 6,000 kms, and maritime borders to 85,000 kms. This challenge is distributed unevenly: 7 of the new Member States represent 40 % of our land external borders. Some 400,000 people apply for asylum in the Union each year - with 7 % of asylum applications from the same person in a different Member State - and over 14 million third country nationals already live in the EU, of which

64 % in Germany, France and the United Kingdom. The scale of these challenges makes a continental-level response essential.

- The reach of the EU in **external relations** is such that it can provide influence and visibility as well as a critical financial mass in its intervention and generate significant economies of scale.

One of the Millennium Development Goals seeks to cut by half the proportion of people without safe drinking water – 1 billion people at present. Even if some Member States have a comparable expertise to the Commission, the EU offers a comparative advantage through its ability to mobilise a critical mass of funding with a real global impact (following the World Summit for Sustainable Development, the EU will commit €1 billion with the Water for Life Initiative).

The current juxtaposition of Member States' and Commission's external services can provide another and very concrete example of potential economies of scale. Member States employ around 45 000 persons abroad in around 1 500 Missions and the Commission employs around 5 000 persons in 130 Delegations. By comparison, the US employs 15 000 persons in around 300 Missions.

2.3 Synergy: EU action to complement, stimulate, and leverage action

The European Union is based on solidarity, and on learning from each other. At the same time, the delivery of key agreed objectives requires synergy between actions and expenditure decisions at the EU, national, and regional levels. The Lisbon strategy or external EU action are good illustrations of this problem. By complementing and stimulating national efforts to promote economic development, the Union can improve the efficiency of national actions and demonstrate EU-wide solidarity. This is all the more important given the widening disparities, but also the advantages, from increased diversity following enlargement. Reducing disparities means also that the European Union must act as a catalyst to raise the standards, and evaluate the best practices. Some examples are:

- **Cohesion policy** is based on the conviction that the Union is a community of solidarity with a common interest in prosperity across its members; and that cohesion interventions stimulate competitiveness and offer a good return on the public investment made by improving sustainable development at a EU level. The imperative to make a direct and visible expression of EU solidarity towards citizens is stronger than ever in a Europe of 25 and more. But development strategies and actions must be owned and primarily conducted by regional and national authorities. The EU's role is to complement national action and act as a lever to maximise the effectiveness of spending, in particular in areas having the largest impact on overall sustainable development.

The record of cohesion policy shows that regions benefiting have seen a consistently higher growth rate than the EU average. Each euro spent on cohesion policy has a significant leverage effect – three euros for each euro spent in the case of "Objective 2" regions. Directed solely towards investment, cohesion has meant a real step change in terms of both physical infrastructure and human capital. Cohesion policy has also brought advantages in terms of partnership and good governance: the fact that it operates as a shared task between the Commission and the Member States has ensured that it works hand in hand with national and regional policy.

- Another example of effective synergy comes from **rural development** policy. Rural development now constitutes the second pillar of the Common Agricultural Policy, giving the CAP a broader perspective more in tune with the needs of today and the enlarged Europe. In this way it fits with other policies aiming to smooth the path of social and economic change. But with over half the population of the EU living in rural areas covering some 90% of the Union's territories, rural development has an obvious role to play in other policies, such as the environment and cohesion. Rural development promotes the adaptation of farmers and the rural community across the Union to new needs in the rural economy, while at the same time supporting high environmental benchmarks and paying special attention to the Union's less-developed regions.
- The threat of terrorism is international by its very nature. Ensuring security through preventing and fighting crime and terrorism will remain a key challenge for the Union which cannot be met by Member States acting alone. A series of unpredictable events, such as that in Madrid, have raised public concern and an expectation for action at EU level. At the same time the removal of internal border checks should not be a threat to the personal safety of EU citizens. As underlined by the Brussels European Council 2004, the threat of terrorism will only be defeated by solidarity and collective action. As Member States depend upon each other to maintain a high level of security, concerted action at European level is necessary.
- Much of the work of the Union concerns spreading expertise and leveraging policy towards more effective delivery. In many areas – environment, social policy, customs and taxation, fisheries – a relatively small investment can help create a virtuous circle of dissemination of expertise and knowledge with real knock-on benefits.

The European Climate Change Programme identifies the most cost-effective measures to achieve compliance with the Kyoto Protocol at the lowest possible cost. The costs of climate change are staggering – insurance companies predict that the cost of natural disasters alone will reach \$150 billion a year in the next decade. But if the right measures can be identified through EU programmes, targets set under the Kyoto Protocol can be achieved at an annual cost of €2.9 to €3.7 billion – a small fraction of the potential costs.

- Member States are often able to deploy strengths in terms of resources, diplomacy, and the defence end of the **external relations** toolbox in different regions of the world, due to history or geography. But EU action makes the collective external effort more coherent, more than the sum of the parts, financing measures to make development aid more effective or working to ensure that individual efforts do not overlap. EU added value stems also from its methods (in particular untying of aid, sectoral and budget support, genuinely results-based approach to development, linking aid volumes directly to countries' achievements of their national targets for poverty reduction).

EU-financed budget support creates incentives for reform in partner countries. It also gives the Commission a stake in the dialogue on budget systems and helps to strengthen domestic accountability. Overall it contributes to create the conditions necessary for the sustainability of other donors programmes including those of the Member States.

EU humanitarian assistance has achieved a highly effective division of labour. The ability to share the burden in the most efficient way, the political neutrality of EU humanitarian aid and careful dovetailing of Member States' bilateral aid and EU assistance have added up to a policy able to deliver real benefits in a unique way.

EU action needs to be tailored in such a way as to maximise value added. There are reserves of value added to be further exploited. Improved coherence in the Union's actions can increase its influence. Enhanced instruments can improve its delivery.

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3. MAKING POTENTIAL VALUE ADDED A REALITY: BETTER GOVERNANCE IN IMPLEMENTING POLICY

In its Communication adopted on the 10 February 2004, the Commission laid out the principles on the basis of which it announced that it will simplify and rationalise its financial instruments. The result of this rationalisation is presented below by budgetary Heading.

3.1 Heading 1: Sustainable Growth

Sustainable growth was at the heart of the political programme laid out in February. To reach this target, action is required across three key axes: making Europe into a dynamic knowledge-based economy geared towards growth; reinforcing cohesion; and ensuring the sustainable management and protection of natural resources.

The first two of these axes will be addressed through action under Headings 1A and 1B.

Competitiveness and innovation in the single market

- Competitiveness is a complex and cross-cutting issue. Research, innovation and a business-friendly climate are all core aspects of an effective competitiveness strategy. They must also be promoted through a healthy regulatory environment with effective competition. Several EU policies and instruments support European competitiveness; a framework programme for **innovation and competitiveness** has the potential to unlock and facilitate action in certain targeted areas. The framework programme will embrace three key themes:
 - Improving the business environment. Amongst the goals to be targeted will be access to investment capital; secure electronic networks; the effective delivery of EU-wide business services; and modernised services through the use of information and Communication technology.
 - Ensuring that innovation works to promote competitiveness and is carried through into practical application at a business level. Synergies will be created with the industry-led “Technological platforms” under the Research framework programme, in which stakeholders will develop research agendas targeting industrial competitiveness in conjunction with the competitiveness programme. Action would also be targeted on environmental technology, using pilot projects or first full-scale applications to demonstrate their technical performance and economic viability; and renewable energy, working through the Intelligent Energy Agency to bring strategic projects to fruition.
 - Backing up European policy on enterprise competitiveness, innovation, entrepreneurship and SMEs with policy expertise and the promotion of EU

action. All action to support industrial policy, innovation and entrepreneurship will be gathered under the competitiveness framework programme, in order to maximise the impact.

- The operation of the Single Market requires the efficient coordination of **taxation and customs**. The current Fiscalis and Customs programmes would be brought together to launch a series of actions in partnership with national customs and fiscal authorities to ensure that rules are applied. With training and with compatible informatics, national customs and fiscal authorities can act as one.

Strengthening research and technological development

- The Commission believes that the imperative need for a quantum leap in European **research** effort justifies a significant boost to the resources devoted to research from the EU budget. But the focus and the delivery of European research policy must also be reworked. The 7th Framework Programme for research will be targeted at the following goals:
 - Creating poles of excellence through trans-national cooperation;
 - Launching European Technological Initiatives, based on Technological Platforms;
 - Stimulating creativity in basic research through competition between research teams at European level;
 - Making Europe more attractive for researchers;
 - Developing research infrastructures of common European interest;
 - Reinforcing the coordination of national programmes.

In all these cases, the work would be targeted on subjects of key European interest, closely linked to areas of EU competence, with a new focus on space and on security. While the Commission will retain political responsibility for the policy, more decentralisation will be introduced, with more involvement for public and private stakeholders, drawing on professional scientific expertise through a “European Research Council”. Three avenues have been identified:

- Partnership with Member States for actions designed to coordinate national research policies on the basis of common objectives.
- Externalisation for actions designed to support individual research teams, through the creation of a regulatory or executive agency.
- Management by the Commission for collaborative research, with a new focus on supervision and control. The remaining tasks related to the execution of the actions could be transferred to an executive agency.

An outline of these proposals was adopted by the Commission in June² and is now the subject of a consultation process to allow the institutions and the research community to react.

Promoting sustainable transport, energy and EU networks

- A dedicated instrument will be used to bring to completion the **trans-European transport and energy networks** identified by the Council and the European Parliament. The transport networks would enjoy multi-annual financing in the framework of a regulation to govern financing of these networks over the 2007-2013 period. The regulation will introduce streamlined decision-making at EU level, clear rules on conditionality and selectivity, and a clearer project management to improve the chain from conception to completion. The Commission will also explore whether an executive agency would provide the most effective way of helping partners to bring projects to fruition.

Provisions on energy networks would implement a multiannual programme centred on support to investments in interconnectors, to maximise efficiency and a secure supply in the European energy sector. This will come in the form of support not only to studies as in the past, but also to developmental work and, in some cases, a limited contribution to construction.

- A separate instrument will build on the existing **Marco Polo programme** on inter-modality, smaller-scale projects to help private sector actions with the precise goal of taking freight off the roads.
- A separate instrument would also be required to put the satellite navigation system **Galileo** on a new legal basis better suited to the next phase of its work.
- In the context of the accession treaties, legal obligations have been created or are being negotiated concerning the exceptional financial burden represented by decommissioning of designated nuclear facilities: the European Union is committed to provide adequate additional financial assistance to support decommissioning efforts beyond 2006.

A specific budget line should be created for this purpose under Heading 1A. This line will receive adequate appropriations from two sources:

- Amounts available from Heading 1A, other than those earmarked for education, research, social policy and the trans-European networks;
- The Growth Adjustment Fund where necessary to make up the balance.

A specific decision on the EU contribution to decommissioning will be tabled for adoption by the Commission in September 2004. It will be based on the objective assessment of the financial needs and the time profile of the associated disbursements for each nuclear plant to be decommissioned, taking as the starting point the current expenditures already financed for the years 2004-06.

Improving the quality of education and training

² Science and Technology, the key to Europe's future: Guidelines for future European Union policy to support research (COM(2004) 353)

- A lifelong learning programme will bring together actions at every level of **education and training**, from schools to adult education, as the sole successor to current programmes (Erasmus, Erasmus Mundus, Comenius, Socrates, Leonardo da Vinci). There will be a heavy emphasis on mobility grants, backed up by two horizontal actions, covering policy development, language learning and the use of new technologies; and Jean Monnet actions on European integration.

The reshaping of a number of different actions will mean common procedures, fewer legal instruments and fewer budgetlines, all providing simplification with a real benefit for users.

Over 80% of resources will be managed in a decentralised way, using national agencies to select beneficiaries and to disburse funds to users of the programmes. This raises issues about the extent of financial control which must be required of national agencies: national agencies disbursing significant resources from the EU budget should have to meet the same standards of control as the Commission and EU-wide agencies. The management at the Commission end will include an executive agency handling actions across the area of education and culture.

A social policy agenda to help European society to anticipate and manage change

- The **social policy agenda** covers the full range of Community social objectives: full employment, social protection and inclusion; working conditions; antidiscrimination and diversity; and gender equality. Action in these areas will be brought together in a single programme for employment and social solidarity (“PROGRESS”). It would offer a “one stop shop” for users with common rules for applicants to all strands of the programme.

Some aspects of social action derive directly from the Commission’s autonomous powers under the Treaty, most obviously the support to social dialogue. Existing regulations in the areas of coordination of social security schemes and free movement of workers (including the long-standing EURES network between the employment services of the Member States) provide a legal basis for the aspects of the social policy agenda which cannot be funded on the basis of the Commission’s autonomous powers.

Responding to changing needs

An effective strategy to promote competitiveness needs to tackle the long-term issues facing the European economy. But it must also be responsive. The twin goals of budget discipline and effectiveness can be met by reserving a sum to be allocated each year by precise targeting. The experience of the European growth Initiative showed that the EU needs an instrument to react quickly to economic change in order to stimulate growth and job creation. A more proactive approach to competitiveness will be provided by the creation of a **Growth Adjustment Fund**. Each year, when the Union assesses progress in the implementation of the Lisbon strategy at the Spring European Council, it could channel resources, if necessary, to boost particularly effective initiatives to accelerate progress in objectives running behind schedule (such as TENs or large environmental or research projects) or help respond to unexpected shocks— such as trade disputes or unexpected consequences of trade agreements, or exceptional calls for urgent actions like for instance, the necessity to top up financial needs to carry out nuclear decommissioning obligations without delay. The Fund would not require a separate instrument: it would use existing programmes and delivery mechanisms.

A greater Cohesion for growth and employment

Cohesion policy now has a sufficient pedigree and the key issue is how to rework existing structures to deliver more effectively. The fundamental principle of partnership would remain; but the system will be less complex and more strategic.

The new generation of cohesion programmes will operate under the following guiding principles:

- A strategic policy document will be adopted for the whole period, to act as a point of reference for Member States and regions alike. It would establish the key targets for a better concentration of cohesion support. An annual Council debate will tie cohesion targeting into the annual cycle for implementation of the Lisbon strategy. The release of funds from a proposed performance reserve will also rest on the extent to which the strategy's goals were being met. In respect of regional competitiveness and employment, a proportion of the funds could also be set aside to be drawn upon when needed to react to the negative effect of a particular economic event.
- Each region or Member State will then propose a strategic reference document for 2007-2013. Once adopted by the Commission, this will serve as the basis for a programming which would concentrate on defining priority axes for intervention, leaving the maximum of flexibility for decentralised decision-making. Financial management will take place at the level of priority axes, not of the measures themselves; and financial control and evaluation would be more proportional and decentralised.
- Users will enjoy the benefit of a major rationalisation in the legislative machinery to implement cohesion policy. Only three financial instruments will be required, the Cohesion Fund, the European Regional Development Fund, and the European Social Fund. The Cohesion Fund and the ERDF will also enjoy joint programming and the same operating rules for infrastructure projects.
- To offset the legal obstacles to cross-border cooperation, an instrument will be set up to support such action, which could be drawn upon as an option.
- A particular feature of the European Social Fund will be specific actions to reinforce social integration of migrants and increase their access to employment. This will target an increased participation of migrant workers under the European Employment Strategy and action to enable third country nationals of different cultural, religious, linguistic and ethnic backgrounds to settle and take an active part in all aspects of European society. This requires a close coordination between the operations of the European Social Fund in this area and the strategy and objectives which will be set by the policy area responsible for immigration policy. The programming of European Social Fund actions for the integration of third country nationals will be carried out by DG EMPL in agreement with DG JAI.

3.2 Heading 2: Conservation and Management of Natural Resources

With significant sums of public money to be devoted to the objectives under Heading 2, it is all the more important that the instruments and delivery mechanisms are in place to implement efficiently.

- With the **CAP reforms of 2003 and 2004** so fresh and with agricultural spending fixed to 2013, the framework for the period covered by the Financial Perspectives is set. It is worth

recalling that these reforms have already entailed a major simplification, with single payments to farmers, a single regulatory framework for direct aid, and controls through land management rather than production. Future changes to common market organisations would be conducted within this framework. A new regulation will establish a structure for CAP funding with a single fund for each pillar, the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The Funds would have many similar elements, including the exclusive use of authorised paying agencies for payments and similar rules for financial control.

- **Rural development** policy will be applied through three major objectives:
 - Increasing the competitiveness of the agricultural sector through support for restructuring;
 - Enhancing the environment and countryside through support for land management;
 - Enhancing the quality of life in rural areas and promoting diversification of economic activities through measures targeting the farm sector and other rural actors.

Rural development programmes in all Member States should pursue all three goals. But the balance chosen between the three goals should be highly decentralised. Member States with a relatively under developed agricultural infrastructure might well decide to put the emphasis on modernisation and restructuring, so that CAP rules can be implemented effectively and the agricultural sector can compete well. In contrast, if viability of rural communities is seen as a key problem in another Member State, it might choose to concentrate on economic diversification.

In all cases, partners at the national, regional and local level should benefit from a significant simplification of the arrangements. This will involve:

- Regrouping all measures under a single instrument to deliver a single programme;
 - Special attention to the need for coherence between rural development and cohesion measures;
 - A better mix of control and decentralisation: an EU strategy document to provide a frame for national rural development strategies; more bottom-up consultation in how these programmes are devised and put into practice; less detailed rules and conditions on the implementation of programmes; and reinforced monitoring and evaluation. The respective responsibilities of Member States and the Commission in financial management will continue to be clearly defined.
- **Fisheries** policy will be delivered through two instruments. The European Fund for Fisheries will constitute a single Fund for the restructuring of the fisheries sector and the development of coastal areas dependant on fishing. This Fund will be centred on a limited number of key axes:

- The sustainable development of coastal areas (both in terms of economic diversification and the environment);
- Adaptation of the fishing fleet;
- Environmentally-friendly and competitive aquaculture and fisheries processing;
- Other actions of common interest, including pilot projects for conservation.

Whilst this Fund is clearly closely linked to the cohesion instruments – and would be operated through shared management using multi-annual programming – its close connection with the implementation of the Common Fisheries Policy makes it appropriate to fall under Heading 2.

The second instrument would gather together all the areas where the Common Fisheries Policy needs finance to support CFP reform:

- Investment in control measures to allow modern control techniques to be put in place in all controlled waters, and back up the work of the Fisheries Control Agency;
 - Measures to promote high quality and easily available scientific advice and technical data;
 - Provision for the conclusion and the financing of international fisheries agreements and participation in Regional Fisheries Organisations.
- Policy coherence cannot be maintained if instruments are considered in isolation. In the area of **environment**, the bulk of EU action comes through the mainstreaming of the environment into other policies.

The challenge for the upcoming period is double: first, to ensure that key environmental objectives complement and reinforce the growth agenda. The current trends in the state of the environment call for increased preventative and remedial action across the full range of policy areas.

Funding under Headings 1A and 1B, Heading 2 (agri-environmental, fisheries, rural development) and Heading 4 is fundamental to achieving environmental policy goals as part of the wider EU sustainable development aim. For example, at present around 16.5 % of the ERDF and 50% of the Cohesion Fund are devoted to the environment. In addition, all cohesion interventions must respect Community law on the environment.

Current levels of funding for environmental activities should be maintained and where necessary increased in the next financing period, reflecting the importance of the environment as a pillar of sustainable development. So the mainstreaming of the financing of EU environmental policy will be maintained.

This commitment to environment funding will be set out in the strategic orientations, programming and implementation guideline documents which will be proposed by the Commission in the coming months. In addition, the Commission will require Member States to show how they have taken the financing needs of the environment, including

relevant aspects of Natura 2000 into account in developing their national programmes under the structural funds and will discuss the need for Community co-financing with them as part of the programme approval process.

- Although most **environmental** action is delivered by mainstreaming into other actions, there remains a need for an instrument to deliver action of a uniquely environmental nature. The **LIFE+ programme** would seek to contribute to the development, implementation, monitoring and evaluation of EU environment policy and legislation. In particular, it would support:
 - The deepening of the knowledge base on environmental policy and the development of key tools to ensure consistency (data collection, studies, scenario building etc);
 - The implementation of environment policy on the ground, notably through capacity building, exchange of best practice and networking and the involvement of NGOs;
 - Demonstration of new policy approaches and instruments;
 - Information and Communication to raise awareness on environmental issues.

A single instrument will allow for a single set of rules and decision-making and financing procedures, as well as more consistent policy targeting. The result will be a reduction in the administrative overheads involved, as well as more transparency and visibility.

3.3 Heading 3: Citizenship

Strengthening the EU as an Area of Freedom, Security and Justice

The Commission's approach for achieving this goal is based on **three framework programmes** to replace the multitude of instruments and budget lines in this field. Transparency will increase, as potential "clients" of the programmes will know immediately to which EU overall policy goal their participation will contribute. These framework programmes will be similar in their functioning and operational rules, so stakeholders will enjoy something close to a single instrument.

This simplified structure will improve the effectiveness of these programmes as policy instruments, drawing policy lessons through appropriate monitoring and evaluation systems. Furthermore, programmes defined by the three policy areas allow for greater flexibility in the allocation of priorities between different actions within the same policy, and should therefore help in providing a swift response to unexpected events – in the area of security, for example, the proposed structure allows a margin of flexibility between preventive and reactive action.

The bulk of funds allocated under this area would be in shared management with Member States. The simplified structure of the programmes will facilitate the coordination with national administrations. Flexibility to adapt to national circumstances will be provided through national programming documents. External bodies will form a coherent whole within the logic of the three main policy areas.

- The **Freedom of movement and solidarity in the area of external borders, asylum and immigration programme** will support the implementation of solidarity in this area and

will represent the bulk of funding for freedom, security and justice. It will cover action to support an integrated approach to the external borders of the EU, and will assist the development of a common asylum policy where a sharing of responsibility helps Member States to respect their international obligations. The programme will contribute to an effective and sustainable management of migration flows – including the fight against illegal immigration and the return of illegally resident third country nationals or persons irregularly migrating towards the EU.

The implementation of a common immigration policy also requires that the Community provides a credible response to the multidimensional issue of integration of third country nationals. This implies that a greater emphasis be placed on increased participation of migrants within the activities developed by the European Social Fund. It also calls for a new form of solidarity in order to support the efforts of Member States in enabling third country nationals of different cultural, religious, linguistic and ethnic backgrounds to settle and take actively part in all aspects of European societies. Finally, for those actions that are not covered by the ESF, such as participation in civic and political life, respect for diversity and civic citizenship, or measures addressed to asylum seekers, including networking, benchmarking and the development of indicators in these areas, the funding will be provided under heading 3.

The creation of an **Agency for External Borders** in the field of migratory flows management has already been proposed by the Commission. An assessment will be made to establish whether the management of the large-scale information systems in areas of relevance to Justice and Home Affairs, such as Eurodac, SIS or VIS, could also be brought within this agency's scope, or would require a new agency. However, there are other sectors, such as food safety and customs, which also require rationalisation and increase of existing controls at EU external borders. Given the economies of scale and the potential overlaps in certain Member States, the feasibility of using the Agency for External Borders as a coordination basis to ensure cooperation between all key bodies responsible for border management will be examined.

- The **Security programme** will strengthen the prevention of crime and terrorism, reinforce cooperation and exchange between law enforcement authorities, support the provision of intelligence on a European scale and develop a European dimension to the training afforded to senior police officers of the Member States.

The Commission expects that both **Europol** and the **European Police College**, currently intergovernmental, will turn into EU bodies, in line with the Constitution.

- The **Justice and Fundamental Rights Programme** will seek to promote judicial cooperation, easy access to justice and offer enhanced legal certainty, both to business and citizens, to back up the growth in cross-border situations. It will monitor the growing *acquis* in this area and facilitate mutual knowledge and confidence in legal systems through public information and training of judges and other legal practitioners. It will also reinforce the coordination and cooperation between investigators and prosecutors dealing with serious cross-border crime, at operational and strategic levels. EU action will also aim at the exchange of information on decisions in criminal matters, such as previous convictions. The promotion of fundamental rights will accompany the integration of the Charter into the Constitution and will have a particular focus on democratic participation in the run-up to the European elections in 2009.

The Commission expects that **Eurojust**, currently intergovernmental, will turn into an EU body, in line with the Constitution. As agreed by the European Council in December 2003 the existing Observatory on Racism and Xenophobia will be extended to become a fully fledged Agency on Fundamental Rights.

The Commission plans to put forward legislative proposals next year. However, as concerns the solidarity mechanism for the management of the external borders (part of the Freedom of movement programme) and the new Justice programme, the entry into force of the new Treaty will determine the timing of action.

Ensuring access to basic goods and services

Current **consumer, food safety and health programmes** do not match citizens' expectations. At present, for example, the public health programme receives 3 times more high quality requests for support than it can meet. Food chain disease eradication is also handicapped by funding difficulties, while enlargement poses a particular challenge to the upgrading of social infrastructure (health, consumers) across the EU 25. In order to improve this situation, the Commission proposes to replace all existing instruments by two major instruments to fit better with the political objectives of citizenship.

- A **food safety programme** will mainly seek to combat animal diseases, facilitate better cooperation between EU laboratories, narrow the gap in food safety standards within and between countries and ensure protection of the whole food chain.
- A **consumer policy and public health** programme will provide sustained capacity-building among consumer organisations; and improve consumer safety through better cooperation between Member States' authorities, as well as between EU and third countries. It will also boost cooperation between Member States to improve the effectiveness and the efficiency of healthcare systems across Europe.

The **European Food Safety Authority** and the **European Centre for Disease Prevention and Control** should provide the necessary assistance (regulatory and executive) required by the Commission in the execution of its tasks. They will deliver advice and analysis but also generate networks across the Union to share best practice.

Fostering European culture and diversity

The need for simplification in the current generation of programmes on **culture, media and youth** has been a consistent theme of evaluations. Simpler and more proportionate contractual and financial rules and less complex rules would allow more energy to be devoted to delivery, and less to administration.

To this end, the Commission proposes fewer, simpler and more flexible legal instruments. The proposals will reduce the number of legal bases from eight at present to four; and the number of budget lines from 22 to four.

The new instruments will permit higher decentralisation. Also, the Commission intends to set up an executive agency for all programmes concerned. This new body will be responsible for the technical tasks relating to all these programmes and provide assistance and follow-up on a day to day basis.

- The new **Youth programme** will promote European citizenship to young people at European level as well as at national and local levels. The current four budget lines will be replaced by a single one, which will cover all the activities currently being implemented through two separate legal bases (the Youth programme and the Community action programme to promote bodies active at European level in the field of youth).

The Youth programme is based on a delegation of authority to national agencies, who will work within a framework laid down by the Commission. The strength of this system is the user-friendliness that national agencies can provide through use of the national language, understanding of national systems, etc. The programme focuses on decentralised actions, and limits direct management to those areas where it has clear added value (such as networks, policy support, and support to NGOs).

- The new **Culture programme** will be open to all cultural and artistic fields, without predetermined categories, and to a greater variety of cultural operators, ranging from national or local administrations to networks and cultural sector companies. It consists of one legal base as opposed to the current two, and of one budget line compared to the current five. The programme will also be more user-friendly.
- The new programme for support to the **European audiovisual sector** will have as global objectives to preserve and enhance European cultural diversity and audiovisual heritage; to promote inter-cultural dialogue and understanding; and to increase the circulation of European audiovisual works inside and outside the European Union. It will integrate the two current MEDIA programmes into a single one, integrating the different components of the European audiovisual value chain. In line with the results of public consultation, rules and procedures will be simplified.
- A **civic participation programme** will build on the recently-launched programme and cover the period from 2007. It will seek to promote the values and objectives of the Union, to bring citizens closer to the EU and its institutions and to stimulate active citizenship. Support may also be granted to bodies pursuing an aim of general European interest in the field of active European citizenship, including “think tanks”. Further action will be needed and a new legislative proposal will be tabled in early 2005.

Solidarity and rapid reaction instrument

Action at European level will also make possible a common approach to emergency situations. A **solidarity and rapid reaction instrument** will provide citizens with a European response in the event of major disasters. The scope of the foreseen instrument will include both immediate response (co-ordination and deployment of resources to combat a disaster as the event unfolds) and financial assistance to cope with emergency situations in the aftermath of an unforeseen crisis. It could also address the need to cover preparedness measures. The instrument will provide funding to give support to victims of terrorism; address civil protection requirements; and react to public health crises, as well as the effects of other natural disasters.

3.4 Heading 4: Europe as a global partner

Over time, the Union has developed a broad spectrum of external relations tools (common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, common foreign and security policy, common defence and security policy,

humanitarian aid and financial assistance, as well as the external projection of internal policies: energy, environment, transport, justice and home affairs, etc). The creation of new budget lines through the annual budgetary procedure, and the subsequent adoption of ad hoc legal bases for their implementation, has added to the proliferation of instruments.

The result is a **mixed and complex set of instruments**. EU global external assistance efforts are currently being carried out through more than 30 different legal instruments (programmes), thematic ones like “EIDHR³”, and geographical ones like EDF or TACIS programs. It also has an array of CFSP instruments (Joint Actions)⁴. There are also some separate instruments which cover the external impact of our internal policies, such as Intelligent Energy. **Managing these various programmes in an efficient and coordinated way has become an increasingly difficult task**, as well as making communication and visibility harder.

As foreseen in its February 10 Communication, the Commission therefore proposes a drastic simplification of instruments, driven by the need to facilitate coherence and consistency of external actions, and achieve better and more with resources available, by addressing the following principles:

- **Policy must lead the instruments:** There is a genuine danger of putting the cart before the horse and having the policies dictated by the instruments, and it is time for the EU to overhaul its instruments to make them more coherent and results-oriented and to increase their leverage effect and flexibility.
- **Ensuring overall policy coherence:** The appropriate policy mix and balance between the needs for short-term response and long term strategies will be ensured through Country Strategy Papers (CSPs) and Regional Strategy Papers (RSPs), as well as accession and thematic strategies. Subject to regular reviews, and calling upon the appropriate mix of the new instruments proposed, this will ensure the necessary coherence in approach.
- **Simplifying structure and procedures⁵** Budget lines and procedures (financing instruments and their legal bases) will be streamlined to make them more effective and more efficient, in particular with regard to emergencies and crises, and more responsive to new initiatives such as the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria or the Heavily Indebted Poor Countries initiative.
- **Output-oriented resources allocation:** There is a broad consensus on the necessity of allocating resources according to expected and measured performances. The CSPs–RSPs process, backed up by stronger analytical capabilities, should confront initial goals and real achievements.
- **Better dialogue and coordination with other donors and institutions:** First, with the other EU Institutions, but also with Members States and Bretton Woods institutions.

³ European Initiative for Democracy and Human Rights

⁴ The 100 different instruments mentioned in the 10 February Communication included both 1st Pillar and CFSP instruments

⁵ There are currently 91 budget lines in the RELEX family policy areas. This does not include budget lines in other policy drawing resources from the current Heading 4.

- **Better dialogue with third countries:** All countries will be covered by the new and simplified set of targeted instruments, bringing better understanding and readability.

To further enhance overall effectiveness of Commission managed EU-aid, the new instruments and the financial allocations made will be guided by a stronger attention to needs and performance criteria. The incorporation of former EDF-aid into the budget will facilitate cross-fertilisation towards the best practice level of the hitherto two systems. The Commission will further seek that the new framework regulating the aid programming and delivery will put it in an enabling position.

In the new architecture proposed, **three general instruments are directly supporting European external policies:** the pre-accession policy, the neighbourhood policy and the development policy. **Three thematic instruments are designed to respond to crisis situations**, whether political, humanitarian or financial, and will cover all third countries. The simplification process will also include the merging of various thematic instruments which at present are separate and which can be re-classified according to their thematic scope.

3.4.1 Policy-driven instruments

- The Pre-Accession Instrument (IPA)

It will cover the candidate (Turkey, Croatia) and the potential candidate (remaining Western Balkans) countries. The IPA, therefore, will supersede existing instruments (PHARE, ISPA, SAPARD and Turkey pre-accession Regulation), simplifying the management of programmes for accession countries.⁶ In order to streamline assistance for Western Balkans countries and avoid an unnecessary phase-out process, the IPA will also replace CARDS.

It will cover the following areas: Institution Building; Regional and Cross-border cooperation; Regional Development; Human Resources Development; Rural Development. IPA beneficiary countries will be divided into two categories, depending on their status as either *recognised* candidate countries or *potential* candidate countries.

All western Balkan countries are covered by the Stabilisation and association process and qualify therefore as potential candidate countries. They will be offered assistance building on the principles and priorities currently laid down in the CARDS-Regulation: Institution Building and Democratisation, Economic and Social Development, Regional and Cross-Border Co-operation and some alignment with the *acquis communautaire*. Once a country has acquired the status of a recognised candidate the IPA will complement the assistance covering all five areas listed above, with a much larger attention to transposing the *acquis communautaire*. A clear distinction will therefore be operated between candidate and potential candidate countries. A country can graduate from potential candidate to candidate status only through a unanimous political decision of the Council following an assessment by the Commission.

- The European Neighbourhood & Partnership Instrument (ENPI)

⁶ In this context, the requirements of the Community policies, which new candidate and pre-candidate countries have to implement will be taken into account

In its Communication of 12 May 2004⁷ approved by the June European Council, the Commission indicated that the European Neighbourhood Policy (ENP) in general and the ENP Action Plans in particular shall provide a guiding framework for the financial assistance to be made available to the relevant partner countries. It further proposed to create a new specific neighbourhood Instrument from 2007.

To date, the assumption had been that this instrument would complement rather than replace the existing instruments (TACIS, MEDA) or their successors and focus on cross-border and transnational cooperation activities at the EU external borders bringing a radical simplification in procedures and a substantial efficiency gain.

As the conceptual work on the various external assistance instruments progressed, it became apparent that a broader approach was necessary in order to reflect the specificity of the ENP approach, give greater visibility to relations with neighbouring countries, provide optimal coherence in the assistance to partner countries and further simplify delivery of assistance. This entails enlarging the scope of the ENPI, to cover all the financial assistance to the countries covered by the European Neighbourhood Policy.

The ENPI should contribute to prevent the emergence of new divisions between the EU and its neighbours through greater political, security, economic and cultural co-operation and offer to the beneficiaries the chance to participate in various EU activities. It should focus in particular on the implementation of ENP Action Plans, jointly agreed documents covering a set of priorities whose fulfilment will bring partner countries closer to the European Union.

Its scope goes beyond promoting sustainable development, economic growth and poverty reduction. It involves substantial support for measures aimed at a progressive economic integration, deeper political cooperation, involving legislative approximation, institution building, participation in Community programmes and Agencies, inter-connections and development of common infrastructure. In order to make assistance more effective it will also build on the experience acquired in the enlargement context and use similar technical instruments such as twinning or TAIEX.

Both IPA and ENPI will include a specific component to promote cross-border co-operation (CBC) on each side of the border between the third country and the Member State concerned. This component will combine objectives deriving from external policy and from economic and social cohesion and operate according to a common methodology and harmonised management based on principles such as multi-annual programming, partnership, and co-financing. Resources would be drawn from both the Cohesion and the External Policy Headings of the proposed Financial Perspectives. The contribution to ENPI and IPA from the Cohesion Policy Heading would be broken down by Member State concerned and would contribute to total resources from the Structural Funds and the Cohesion Fund for the purpose of the 4% ceiling.

- The “Development Cooperation & Economic Cooperation” Instrument

The new instrument will be the main vehicle to support developing countries in their efforts to progress towards the Millennium development goals. The next financial perspective period is a crucial vehicle towards meeting the 2015 target for these goals. The instrument’s coverage

⁷ COM (2004) 373, European Neighbourhood Policy Strategy Paper

will be all countries, territories and regions that will not receive assistance under the IPA or the ENPI.

It will cover development and economic co-operation with partner countries and regions, in its various forms and modalities as well as global and horizontal initiatives in conformity with articles 179 and 181a of the Treaty.

It will include the successor to the 9th EDF which will come to an end in 2007. The Commission has indeed proposed not to continue with a 10th EDF but to bring aid to ACP countries under the mainstream cooperation instruments in full. This is expected to render aid to ACP countries more effective (negotiations on country strategies will encompass all aid), more responsive and more efficient (economies of management, not only for Commission services, but first and foremost for beneficiary countries and all stakeholders). The value added to be obtained from incorporation of the ACP-aid into the budget framework under full authority of the EU budget authority has been developed in a separate Commission Communication from October 2003⁸.

It shall equally cover those areas included in agreements and other bilateral instruments with partner countries, or in co-operation agendas jointly agreed with partner countries, as for instance: reinforce the various social services (health, education); contribute to the core infrastructures needed to sustain economic and social development (transports, utilities, telecommunication...); deal with sustainable rural development and food security in their various aspects (agricultural reform, environment, etc.) including appropriate measures to deal with the reform of the sugar protocol⁹; contribute to the emergence of an efficient private sector, able to operate according to the global trade rules and the principles of a market economy (including the institution building efforts more specifically dedicated to this objective); promote good governance, the rule of law and respect for human rights and democratisation; support institution building; management of asylum and migration flows; address security issues, such as the fight against trafficking, crime, and terrorism; address nuclear safety issues; contribute to the development of media and communication sectors; support economic and cultural cooperation with more advanced countries.

It will include the possibility of a rapid and integrated response to post-crisis transitional needs.

3.4.2 *Instruments responding to crises*

- The Instrument for Stability

Before the intervention of other instruments, this instrument will allow the Community to:

- deliver an effective, immediate, and integrated response to crisis and instability through a single financing instrument, building on the added-value demonstrated by the Rapid Reaction Mechanism, until programming under one of the general instruments for cooperation and assistance can resume;

⁸ COM(2003)590

⁹ These measures are laid out in the Communication from the Commission to the Council and the European Parliament on accomplishing a sustainable agricultural model for Europe through the reformed CAP – sugar sector reform (COM(2004)499)

- address global and regional trans-border challenges affecting civilian security, such fight against trafficking, organised crime and terrorism, where such actions need to be delivered in response to crisis;
- address nuclear safety issues where such actions need to be delivered in response to crisis;
- develop international peace-keeping capacity in partnership with regional organisations, in line with the established policy agreed for the Africa Peace Facility and the recommendations of the Brahimi report;
- undertake electoral assistance missions in countries where it is too dangerous to send observation missions

The instrument provides, moreover, a framework for response to new policy initiatives supported by the Union in line with the objectives of the regulation, where this is complementary to actions undertaken under the other external action instruments.

The existing legal constraints of the Treaties¹⁰ do not allow the creation of a single, cross-pillar instrument to deal with all these aspects. The Instrument for Stability addresses therefore purely first-pillar measures. Second pillar measures will continue to be adopted under the CFSP, the scope of which will be defined by the Council on a case-by-case basis, as is the current practice.

- The Humanitarian Aid instrument

It is proposed to maintain the present format of EU humanitarian assistance, which is regarded as sufficiently well defined in terms of scope and objectives and performing well in terms of delivery and efficiency.

Nevertheless, as part of the simplification and rationalisation process, it is proposed to integrate other activities of a humanitarian nature in the humanitarian aid instrument. This concerns *inter alia* food aid activities and the humanitarian aspects of aid to uprooted people.

- Macro-Financial Assistance (MFA)

Since its inception in 1990, MFA has proved an efficient instrument for economic stabilisation and a driver for structural reforms in the beneficiary countries. It has to be maintained and reinforced in the face of increased potential needs, notably from the enlarged Union's neighbouring countries: Western NIS (Moldova, Ukraine, Belarus), the Caucasus and Mediterranean non-member countries.

The instrument will continue, as long as the Constitutional Treaty has not entered into force, to be governed by ad hoc Decisions of the Council under Art. 308 of the Treaty.

3.4.3 *The external aspects of internal policies*

The projection of internal policies outside the Union is also a critical aspect of the Union's external relations. It is vital to reconcile the need for policy coherence and thematic visibility

¹⁰ This constraint will remain even if the Constitution is adopted

for the internal policies concerned (notably education; environment; immigration and asylum; customs and taxation; and networks), with the need for overall coherence of external relations (as defined in country or regional strategy papers).

The 3 general instruments proposed in the field of external relations should cover all policy areas, either as a thematic strand or in the context of the policy mix defined for a given third country. As a general rule, there is therefore no need for separate legal instruments to deal with external aspects of internal policies, if appropriate equivalent provisions are introduced in the external legal instrument to cover the specific requirements of the thematic policy concerned and to preserve their identity. Within the relevant instruments appropriate and complete provision will be made to ensure that external aspects of internal policies are properly covered allowing measures in support of policies areas such as environment, asylum and immigration, education, transport and customs and taxation to be covered. Specific recognition will be given to measures in support of third level education (TEMPUS) with an emphasis on mobility. In some cases, the pursuit of the policy objective will require that funds are not programmed geographically, as they serve multilateral objectives, for example, to enable the EU to promote its environmental aims in the multilateral context, independently of the priorities of individual beneficiaries.

Management would therefore be shared between the internal policy and the external Directorates-general: this implies co-programming, presidency of the relevant Committee by DG Relex assisted by the internal policy DG concerned, or alternate presidency. The selection and evaluation of projects by DG AIDCO will involve the internal policy DG.