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COMMUNICATION FROM THE COMMISSION

A financial package for the accession negotiations with Bulgaria and Romania

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I. Introduction

As was the case for the ten countries acceding to the Union in May 2004, one of the first and most essential tasks in preparing the ground for the completion of the negotiations with Bulgaria and Romania will be to establish a coherent financial 'package' for these two countries. The European Council meeting in Brussels in December 2003 invited the Commission to submit its proposal in this regard at the beginning of 2004. This Communication aims to provide the main elements for a financial package for Bulgaria and Romania so that the Council can debate these issues in a common framework at the beginning of 2004. On this basis, the Commission will then present to the Council in spring 2004 draft common positions for negotiations in the fields of agriculture, regional policy and financial and budgetary provisions.

For the ten acceding countries, the financial package for their accession was largely determined by the financial framework for the period 2000-2006 agreed at the Berlin European Council in March 1999. In the case of Bulgaria and Romania, there is not yet such an overall financial framework in which to place the budgetary implications of their accession. However, the European Council meeting in Thessaloniki in June declared that "discussions or agreement on future policy reforms, or the new financial perspective, shall neither impede the pursuit and conclusion of accession negotiations nor be prejudged by the outcome of these negotiations". The Commission's proposals outlined in section II are therefore based largely on the existing *acquis* as well as on the principles and methodology underlying the financial package developed for the negotiations with the ten acceding countries.

As it cannot be excluded that any financial package for Bulgaria and Romania would need to be adapted in important respects to reflect future policy reforms or fundamental changes to the overall financial perspective as compared to the current perspective, the Commission judges it prudent and appropriate to limit the financial package for Bulgaria and Romania to a period of three years from their accession. This is similar to the period covered by the negotiations with the ten acceding countries, which was limited to the current financial perspective expiring in 2006.

Figures provided in this Communication are expressed in 2004 prices, except where indicated otherwise.

II. Outline for a financial package

a) Agriculture

For ***market measures*** under the common agricultural policy it is foreseen that the *acquis,* including the CAP reform agreed by Member States in June 2003, will apply fully to Bulgaria and Romania as from their accession to the Union.

Taking into account the most recent agricultural market forecasts, the Commission estimates a financial envelope being necessary for market measures in Bulgaria and Romania during the first three years of their accession amounting to €1,120 million (Bulgaria - €388 million, Romania - €732 million).

Concerns raised in relation to the ten acceding countries that immediate full integration into the system of direct payments would not give the right incentives to farmers in the new Member States to engage in, or continue, the necessary restructuring, are equally, if not more, valid, in the case of Bulgaria and Romania. The Commission therefore considers that the objective of gradually introducing ***direct payments*** for farmers in the new Member States over a period of 10 years starting at 25% of the level then applicable to the EU-15 should be maintained for Bulgaria and Romania.

This would mean that direct payments would be introduced in Bulgaria and Romania at a level equivalent to 25% of the EU-15 level in 2007, 30% in 2008, 35% in 2009 and 40% in 2010. Annual increases of 10% would continue until in 2016 a level of direct payments equivalent to 100% of the EU-15 level then applicable would be reached. By introducing direct payments based on percentage steps rather than in absolute amounts, this arrangement would provide Bulgaria and Romania with a clear perspective for full application of the *acquis* to them in this area.

Support-related supply management instruments (e.g. base areas, reference yields and ceilings) and production quotas should be determined on the basis of historical production figures from a reference period to be defined. The national ceilings for Bulgaria and Romania under the single payment scheme should be established using the same methodology.

The estimated financial cost of introducing direct payments in this way to Bulgaria and Romania in the first three years of their accession would amount to €1,312 million in total (Bulgaria - €431 million, Romania - €881 million). No expenditure would be incurred in 2007, due to the fact that reimbursements from the EU budget for expenditure by Member States on direct payments in any given year is made from the budget of the following year.

As regards ***rural development policy***, an overall three-year envelope should be fixed based on ensuring that in the third year of Bulgaria and Romania's EU membership, their combined rural development allocations will reach a level which, when compared to the level of rural development funding in 2006 foreseen for the acceding countries (not including Cyprus and Malta), is proportional to Bulgaria and Romania's combined share of total SAPARD funding up to 2003. In order to take into account limits on absorption capacity and to ensure a steady application of rural development policy to Bulgaria and Romania, a gradual phasing-in over the three year period concerned should be assured. The available funds should be allocated between Bulgaria and Romania based on a key which takes into account relative shares of utilised agricultural area and agricultural employment. Applying this approach results in a total three-year envelope of €3,041 million, of which €617 million for Bulgaria and €2,424 million for Romania.

While during the first three years of accession the global envelope for rural development allocations for each country would be fixed, allocations within each country envelope and the scope and nature of the interventions would be determined by the rules applicable to all Member States covering the same period. Bulgaria's and Romania's rural development allocations beyond the initial three-year period would be based on application of existing rules or those rules deriving from any policy reforms taking place in the meantime.

In terms of programming, the three-year financial envelope would not be programmed separately, but would rather form an integral part of the overall programming period to be covered by the next financial perspective.

All the above elements will be integrated into and explained in more detail in the Commission's draft common positions for the agricultural chapter, which should be presented to the Council in spring 2004.

b) Structural actions

For the period 2000-2006, structural actions allocations between current Member States were determined according to the methodology and criteria arising from the Regulations governing the structural and cohesion funds. These criteria were applied on the basis of a pre-determined global financial envelope. For the ten acceding countries, the same approach was largely followed: a global envelope was fixed and the usual criteria applied to establish national allocations.

The Commission considers that an overall financial envelope covering the first three years of accession should be fixed for both Bulgaria and Romania based on a similar approach as for the ten acceding countries, including in particular a progressive phasing-in of structural actions expenditure in order to reflect the progressive increase of absorption capacity in these countries. These envelopes should also be based on the assumption that rules deriving from the current *acquis* such as the capping of total structural and cohesion funding at 4% of national GDP in any given year should apply. Also, on an indicative basis, around one third of the total envelope would go towards the Cohesion Fund.

The phasing-in for Bulgaria and Romania should be based on the global rate of phasing-in foreseen for the introduction of the structural funds to the ten countries acceding to the EU in 2004. On this basis, Bulgaria and Romania would benefit from structural actions commitments in their favour amounting to 2.4% of their respective levels of GDP in 2007, 3.2% in 2008, and 4% in 2009. This approach should ensure a smooth phasing-in, which adequately takes into account the level of absorption capacity. Total structural actions expenditure on this basis would amount to €8,273 million in the three-year period 2007-2009, of which €2,300 million for Bulgaria and €5,973 million for Romania.

While during the first three years of accession the global envelope for each country would remain fixed, allocations within each country envelope and the scope and nature of the interventions would be determined on the basis of those rules stemming from policy reforms covering the period from 2007. In terms of programming, the three-year financial envelope would not be programmed separately, but would rather form an integral part of the overall programming period to be covered by the next financial perspective.

c) Internal policies

Full participation by Bulgaria and Romania in the Community's internal policies as from their accession should be foreseen. While there are no specific country envelopes under the existing internal policies, an additional €1,012 million would need to be foreseen for the period 2007-2009 to take account of Bulgaria and Romania's accession were the level of existing internal policies expenditure foreseen for 2006 to remain constant and the same methodology[1] used to determine the level of increase in the funds available for the internal policies to take account of the ten acceding countries applied. In addition, specific allocations will need to be foreseen as follows:

- *Nuclear Safety*

In view of the importance attached by the EU to a high level of nuclear safety as well as the decision of the Bulgarian government to decommission installations at Kozloduy nuclear power and current Phare funding in support of this process, additional funds should be allocated for the on-going support of the decommissioning effort beyond the existing commitment of €200 million from PHARE for the 2000-2004 period. To this end, additional financial support totalling €350 million should be made available for the period 2004-2009. Of this amount, preliminary estimates point to some €140 million being necessary in the remaining period before accession[2]. This amount should be funded under PHARE. The remaining €210 million should be foreseen for the post-accession period 2007-2009 and included in the financial package for Bulgaria at a rate of €70 million per year.

- *Transition facility for institution building*

The need to establish adequate administrative and judicial structures and to strengthen administrative and judicial capacity to properly implement the acquis has been identified in the course of the accession negotiations, in the regular reports and the accession partnerships, as of critical importance to the accession process. Additional funds should therefore be allocated to Bulgaria and to Romania in support of institution building measures in the first three years of their accession similar to those agreed for the ten acceding countries, in particular through the use of the “transition facility”. For these purposes, €82 million in total should be available for the three-year period 2007-2009.

Both nuclear safety and the transition facility for institution building could be treated under the chapter ‘other matters’.

d) Budgetary compensation

In line with what was agreed with the ten acceding countries, it is foreseen that the own resources rules should apply in full to Bulgaria and Romania from the first year of accession. Furthermore, the Commission considers that Bulgaria and Romania should not find themselves in a net budgetary position on accession which is worse in comparison with their situation in the year before accession as beneficiaries of pre-accession funds.

Should it appear that, based on the conclusion of the negotiations, such a deterioration is likely to occur, the Commission will propose appropriate amounts for budgetary compensation in favour of Bulgaria and/or Romania of a similar type to that agreed with the ten acceding countries, based on application of the same methodology.

e) Administration

As for the ten acceding countries, it can be assumed that there will be no administrative expenditure specifically earmarked for Bulgaria or Romania. However, additional

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1 This is essentially based on a combination of 50% population and 50% GDP level

2 On an annual basis, the needs in the pre-accession period are likely to be €40m in 2004, €50m in 2005 and €50m in 2006.

administrative expenditure will be necessary due to Bulgaria's and Romania's accession, notably with respect to increased interpretation and translation needs. An estimate of the additional administration costs arising in the first three years of Bulgaria and Romania's EU membership is €346 million.

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The financial impact of the above proposals for a three-year period beginning in 2007 is outlined in the attached annex. Additionally, estimates are provided for the level of payments to be generated from this new expenditure. These estimated have been calculated on the basis of the same methodology used for the ten countries acceding to the Union in 2004.

III. Accommodating a financial package in the absence of a financial perspective

- Possible future adaptations to the financial package in light of future policy reform

If the financial package for the accession of Bulgaria and Romania were to require adaptation after the conclusion of the negotiations, a procedure would need to be available to involve these countries as appropriate in this decision-making. In this respect, similar mechanisms as established for the ten acceding countries should apply. This would include an information and consultation procedure, to be laid down in the Accession Treaty, which would allow Bulgaria and Romania to be kept closely involved in the decision-making process in particular in those areas of direct relevance to the agreed financial package. Active observer status for Bulgaria and Romania in Council bodies and in committees presided over by the Commission as well as observer status in the European Parliament should also be foreseen.

Given the proposed approach to agree and guarantee important elements of expenditure in favour of Bulgaria and Romania in the first three years of their membership, any changes resulting from future policy reform will not, however, have any significant effect on the overall financial package as such. Based on the proposals presented in this Communication, expenditure on structural actions, rural development and some aspects of internal policies make up to about three quarters of the total financial package for Bulgaria and Romania. Expenditure in these areas would be guaranteed to be no more and no less in terms of global amounts. There may be a need, however, to make adjustments *within* the global national allocations.

- Heading 1a ceiling for EU25 2007-2013

The additional market-related expenditure resulting from the accession of Bulgaria and Romania will need to be added to the total EU-25 ceiling for Heading 1a. [3]. This decision specifies that for the period 2007 to 2013, an annual deflator of 1% will be applied to the 2006 heading 1a ceiling adjusted for EU 25. The fixed ceilings are laid out in the following table:

[3] As laid down in the Decision of the Representatives of the Governments of the Member States, meeting within the Council, of 18 November 2002.

Agreement on Heading 1a to 2013 for EU-25 - current prices - € millions

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total EU-25 ceiling	42.979	44.474	45.306	45.759	46.217	46.679	47.146	47.617	48.093	48.574

The above decision does not take into account the expenditure requirements resulting from the accession of Bulgaria and Romania and does not, a priori, apply to these two countries. The additional costs of Heading 1a in favour of Bulgaria and Romania presented here have been calculated on this assumption.

- *Involvement of the European Parliament*

Adjustments to the current financial perspective to take into account the enlargement from 15 to 25 Member States were carried out in accordance with article 25 of the Inter-institutional Agreement between the Council, the European Parliament and the Commission. This agreement foresaw an adjustment of the financial perspective to cater for enlargement based on the European Parliament and the Council acting, on the basis of a proposal from the Commission, in accordance with the voting rules under the fifth subparagraph of Article 272(9) of the EC Treaty.

Taking into account the European Parliament's role as one arm of the Union's Budgetary Authority and the possibility that discussions on the next financial perspective may be on-going as the accession negotiations with Bulgaria and Romania are being finalised, an intensification of co-operation with the European Parliament with respect to the financial package for Bulgaria and Romania should be foreseen.

ANNEX

Financial Package for Bulgaria and Romania

2007-2009

(€ millions, 2004 prices)

	2007	2008	2009	Total
COMMITMENT APPROPRIATIONS				
Agriculture	1141	1990	2342	5473
Structural operations	1938	2731	3605	8273
Internal Policies	444	434	426	1304
Administration	96	125	125	346
Total commitment appropriations	**3619**	**5279**	**6498**	**15396**
Payment appropriations *	**1648**	**3276**	**4131**	**9056**

* Based on above four categories of expenditure and the same methodology applied to 10 countries acceding 2004