



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**CONCERNING THE MOBILISATION OF THE FLEXIBILITY INSTRUMENT
(Point 24 of the Interinstitutional Agreement of 6 May 1999 on budgetary discipline
and improvement of the budgetary procedure)**

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**CONCERNING THE REVISION OF THE FINANCIAL PERSPECTIVE
annexed to the Interinstitutional Agreement of 6 May 1999 on budgetary discipline and
improvement of the budgetary procedure**

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. UPDATED EVALUATION OF THE NEEDS UNDER HEADING 4 (« EXTERNAL ACTIONS ») OF THE FINANCIAL PERSPECTIVE

According to Amending letter n°4 presented herewith, additional needs of commitment appropriations, compared to the pre-draft budget, must be introduced in the 2000 budget. The coverage of these needs would be broken down as follows :

- The complement of expenditure for the fisheries agreements for a net amount of 119 million Euro and also the reinforcement of the CFSP appropriations by 7 millions would be drawn from the margin of 147,5 millions initially available.

A total envelope of 500 million Euro will be assigned to interventions in favour of Kosovo in 2000. It includes 360 millions on line B7-546 "Aid for the reconstruction of Kosovo", coming on top of the appropriation already provided for in the PDB (60 millions), of the humanitarian aid, and of the expected carry-over from 1999. These 360 millions can be financed by means of reallocations within Heading 4 up to 180 millions and of a deduction of 10 millions on the remaining available margin, which would then be reduced to 11,5 millions.

The financing gap of 170 millions relating to the aid for reconstruction of Kosovo must be covered by overspending on the current ceiling of Heading 4.

2. FINANCING ABOVE THE CURRENT CEILING OF HEADING 4

2.1. Mechanism provided in the Interinstitutional Agreement

The Interinstitutional Agreement¹ envisages two types of procedures to cope with needs which would exceed the ceiling of a heading of the financial perspective. First of all, its Point 24 establishes a *flexibility instrument* of an annual amount of 200 million Euro. It is intended to allow financing, for a given financial year and up to the amount indicated, of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more other headings. The precondition for the use of the instrument is the examination by the Commission of all the possibilities of re-allocation of the appropriations under the heading concerned with the needs for additional expenditure. It should not be used for the same needs two years running.

Moreover, its Point 19 envisages the *revision of the financial perspective*, in compliance with the own resources ceiling, in the event of unforeseen circumstances. Point 21 establishes that, before the launching of a revision, the possibilities of reallocation of expenditure between the programmes included in the heading concerned are examined. Moreover, a revision by offsetting raising the ceiling for one heading by lowering the ceiling for another has to be led first of all.

It follows that the order of mobilisation of the various sources of financing is as follows:

¹ OJ C 172 of 18.06.99, p.1.

- (1) Re-allocations within the heading concerned.
- (2) If that is not sufficient, call for the flexibility instrument, for all or part, in compliance with the conditions of use of this instrument.
- (3) If that is not sufficient or if the conditions of use of the flexibility instrument are not met, revision of the financial perspective by offsetting raising the ceiling for one heading by lowering the ceiling for another.
- (4) If that is not practicable, non compensated increase in the ceiling of a heading, in compliance with the ceiling of the own resources.

In addition, the Parliament and the Council evoked in a statement annexed to the Interinstitutional Agreement the possibility of taking the budgetary measures necessary to face the development of the situation in the Balkans, and in particular in Kosovo. They request the Commission, when needs have been ascertained and estimated, to submit the necessary budgetary proposals, including, if appropriate, a proposal for revision of the financial perspective.

2.2. Mobilisation of the flexibility instrument

A. The conditions of use of the flexibility instrument are met

The needs for reconstruction of Kosovo to be financed for 2000 are clearly identified even if a more systematic evaluation over several years will not be available before the beginning of 2000. The appropriations will be used for actions of rehabilitation and of modernisation of the existing infrastructures. They will also be used to set up an efficient local administrative capacity in the country.

They could finance interventions in the following areas: rehabilitation of dwellings, basic infrastructure in water, sewage and electricity networks, power stations and mine-clearance. The setting up of a local administrative capacity could be organised via training and twinnings with officials from the Member States, similar to the PHARE programme. Some commitments would finance agricultural loan schemes. Major modernisation and restructuring programmes could be undertaken in the energy production and mining sectors. The latter would involve privatising, reorganising and making big enterprises compatible with environmental standards in order to make them viable in the longer term. Funds for this objective could be committed rapidly. In addition, it is necessary to provide budgetary support to finance the gap in public expenditures. This is why part of the envelope would be devoted to macro-economic support. The reconstruction will gradually be replaced by economic aid in order to stabilise the area.

Moreover, what is at stake at the present stage is the financing of the beginning of the reconstruction effort while awaiting the setting up of a pluriannual financial framework for the action from the Union in Kosovo. It is therefore envisaged to make use of the flexibility instrument in this connection only for the financial year 2000.

B. A partial use of this instrument

As regards the amount to utilise, following considerations have to be taken into account. First of all, the margin left under the ceiling of Heading 4 is very low, as a consequence of the recently identified needs and of the proposed reallocations. But one cannot exclude:

- (1) The need to cope to other international crises.
- (2) An evaluation upwards of the needs under the 2000 budget for the reconstruction of Kosovo or for other actions in the Balkans according to the development of the political situation in this region.

The flexibility instrument is aimed at financing unforeseen expenditure coming from the whole budgetary field, and not only from external actions. This still increases the probability of having to resort to it in the budget execution process.

For these reasons, it is proposed to use this instrument up to 60 million Euro.

2.3. **A revision of the ceilings of Headings 4 and 1b**

The remaining 110 million Euro would therefore be financed by a corresponding increase of the ceiling of Heading 4 of the financial perspective (« External Actions») for 2000, in compliance with the revision procedure.

This increase would be compensated by a reduction by the same amount of the ceiling of Heading 1b (« Rural development and accompanying measures »). The amending letter proposed herewith leaves a margin of 599 million Euro under this ceiling. Such a high margin under Rural development is exceptional and will probably occur only in the case of the financial year 2000. It is due to technical reasons connected with the transfer of part of the actions of rural development from Heading 2 (« Structural Measures ») to Heading 1 (« Agriculture »). In particular, the new regulatory provisions concerning rural development enter into force only on 1 January 2000. The procedure of proposal and of selection of the programmes will only start at that date. Not enough time will be then available so that all the commitments and the payments are carried out. However, taking into account the payment appropriations in 2000 of the programmes carried out during the previous period in the same field, the total amount allocated for rural development actions will remain at previous level in 2000.

As regards the total payment appropriations ceiling, the proposed revision does not imply modifying the initial amount.

In practice, the table of the financial perspective would be amended as follows for 2000 (in million Euro - 2000 prices) :

COMMITMENT APPROPRIATIONS		2000
1. AGRICULTURE		41 628
Common agricultural policy (not including rural development)		(-110)
Rural development and accompanying measures		37 352
		4 276
		(-110)
2. STRUCTURAL OPERATIONS		32 678
Structural Funds		30 019
Cohesion fund		2 659
3. INTERNAL POLICIES		6 031
4. EXTERNAL ACTIONS		4 737 (1)
5. ADMINISTRATION		(+110)
		4 638
6. RESERVES		906
Monetary reserve		500
Emergency aid reserve		203
Loan guarantee reserve		203
7. PRE-ACCESSION AID		3 174
Agriculture		529
pre-accession structural instruments		1 058
PHARE (applicant countries)		1 587
TOTAL COMMITMENT APPROPRIATIONS		93 792
TOTAL PAYMENT APPROPRIATIONS		91 322
Payment appropriations as % of GNP		1.13%
AVAILABLE FOR ADHESION (payment appropriations)		-
Agriculture		-
Other expenditure		-
CEILING ON PAYMENT APPROPRIATIONS		91 322
Ceiling on payment appropriations as % of GNP		1.13%
Margin for unforeseen expenditure		0.14%
Own resources ceiling		1.27%

(1) This figure does not take into account the mobilisation of the flexibility instrument up to 60 million Euro.

2.4. Financing perspectives beyond 2000

An estimate of the medium-term financial needs for the reconstruction of Kosovo will not be available before the beginning of 2000. The Commission will then decide on the most appropriate instruments to finance the estimated needs.

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and improvement of the budgetary procedure)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure² and in particular its point 24,

Having regard to the Commission proposal,

Whereas :

- (1) The Interinstitutional Agreement referred to above establishes a «flexibility instrument» the annual ceiling of which is 200 million Euro.
- (2) This instrument can be mobilised for specific and clearly identified expenditure which could not be financed within the limits of the ceilings of the financial perspective, having re-allocated appropriations within the heading concerned when possible.
- (3) The need for additional financing under item B7-546, compared to the preliminary draft budget, for the reconstruction of Kosovo in 2000 is estimated at 360 million Euro.
- (4) In the absence of a complete estimate of the needs and of a medium-term reconstruction strategy for Kosovo, only available as from the beginning of 2000, the question of the financing of the reconstruction effort of Kosovo arises in a specific context for 2000. It should therefore not lead to recourse to the flexibility instrument for the following financial year.
- (5) Appropriations were re-allocated within Heading 4 of the financial perspective where possible and the margin under Heading 4 was reduced to 11,5 million Euro. A complement of 190 million Euro could be found for the reconstruction of Kosovo.
- (6) The conditions of use of the flexibility instrument as given in point 24 of the Interinstitutional agreement referred to above are therefore met.
- (7) A revision upwards of the needs under the 2000 budget for the reconstruction of Kosovo or for other actions in the Balkans according to the development of the political situation in this region cannot be excluded.

² OJ C 172 of 18.06.99, p.1.

- (8) The flexibility instrument should remain operational during the execution of the 2000 budget for other international crises, or for other needs concerning other categories of expenditure.
- (9) The flexibility instrument can therefore be called up to a limit of 60 million Euro at this stage.

HAVE DECIDED AS FOLLOWS:

Article 1

The flexibility instrument is used in the framework of the preparation of the 2000 budget in order to contribute to financing the reconstruction effort from the European Union to Kosovo.

Article 2

The appropriations taken on the amount of the flexibility instrument are used for the operations of the European Agency for the reconstruction of Kosovo, up to 60 million Euro.

Done at Brussels,

*By the European Parliament
The President*

*By the Council
The President*

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure³ and in particular its Points 19, 20 and 21,

Having regard to the Commission proposal,

Whereas :

- (1) Supplementary budgetary needs for the financial year 2000 are observed. They derive from the future fishery agreement with Morocco, from the aid for reconstruction to Turkey following the earthquake, from the aid to East-Timor, from the reinforcing of the Common external and security policy, and from the reconstruction of Kosovo.
- (2) Appropriations having been re-allocated within Heading 4 of the Financial perspective, the flexibility instrument can be used up to 60 million Euro. 110 million Euro still have to be financed. An increase of the ceiling of Heading 4 is therefore proposed.
- (3) The above-mentioned Interinstitutional agreement stipulates in Point 21 second paragraph that « the institutions will also examine the scope for offsetting raising the ceiling for one heading by lowering the ceiling for another ». According to the amending letter proposed in parallel, a margin of 599 million Euro is left between the appropriations for rural development (title B1-4) and sub-ceiling 1b (« Rural development and accompanying measures ») of the financial perspective; the increase of the ceiling of Heading 4 to 110 million Euro can therefore be compensated by a reduction by the same amount of the ceiling of Sub-heading 1b.
- (4) The amount of the corresponding additional needs in payment appropriations does not entail a rise in the ceiling of the total payment appropriations set in the financial perspective.

³ OJ C 172 of 18.06.99, p.1.

HAVE DECIDED AS FOLLOWS:

Single Article

The ceilings of the financial perspective are modified as follows for 2000:

[commitment appropriations, in million Euro -
2000 prices]

	2000
1. AGRICULTURE	41 628
CAP expenditure (other than rural development)	(-110)
Rural development and the supporting measures	37 352
	4 276
	(-110)
4. External ACTIONS (out of PHARE as from 1999)	4 737
	(+110)

The total ceiling of the commitment appropriations and that of the payment appropriations remain unchanged.

Done at Brussels,

By the European Parliament
The President

By the Council
The President