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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29.10.2009
COM(2009)595 final

COMMUNICATION FROM THE COMMISSION

A financial package for the accession negotiations with Croatia

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I. Introduction

In its Communication of 5 November 2008 to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2008-2009"(COM(2008) 674 final), the Commission indicated that subject to Croatia maintaining overall progress in its preparations, the Commission will present a Communication in the course of 2009 on a financial package for the accession of Croatia.

Taking into account the overall progress achieved thus far by Croatia in the accession negotiations, this Communication provides the main elements of a financial package for Croatia so that the Council can debate these issues towards the end of 2009. On this basis, the Commission will subsequently present to the Council draft common positions for negotiations in the fields of agriculture and rural development, regional policy and co-ordination of structural instruments and financial and budgetary provisions. This Communication at the same time provides an assessment of the financial impact of Croatia's accession in these policy areas.

For the purposes of this Communication, the working hypothesis for the accession of Croatia in January 2012, which assumes the conditions of membership are met. This includes the required capacities for the management and control of Community financial instruments being in place¹. As the current financial framework covers the period 2007-2013, the financial package for Croatia covers the two-year period 2012-2013.

The Commission's proposals for Croatia outlined in section II are based on the existing *acquis* as well as on the principles and methodology underlying the financial packages developed for the negotiations with the twelve newest Member States. This includes a ten-year phasing-in schedule for agricultural direct payments and a two-year phasing-in of expenditure for cohesion policy, rural development and the European Fisheries Fund. As there is currently no financial framework covering 2014, the assumed third year of accession, Croatia should be treated equally with other Member States for the still to be defined expenditure items in the financial framework from 2014.

Figures provided in this Communication are expressed in current prices.

II. Outline for a financial package

The outline below is presented according to the headings of the current financial framework 2007-2013.

¹ In addition, in order to take all appropriate steps to protect the Community's financial interests, the Commission intends to propose safeguard provisions to be included in the Accession Treaty.

Heading 1: Sustainable growth

1a Competitiveness for growth and employment

The main expenditure items covered by Heading 1a: Competitiveness for growth and employment are the Seventh Research framework programme (57%), Lifelong Learning and Erasmus Mundus (9%) and Trans-European Networks -energy and transport (8.2%).

Full participation in the Community's actions and programmes by Croatia as from its accession should be foreseen. While there are no specific country envelopes under the existing actions and programmes² covered by heading 1a, an overall increase in heading 1a appropriations would be required so as to ensure there is no negative effect on the existing funding foreseen for EU27. Based on the same methodology³ used to determine the level of increase in the funds available for the internal policies to take account of the accession of the twelve countries of the fifth enlargement, additional funding of €187.2 million in the first two years of Croatia's accession would be required.

(In million EUR, at current prices)

Heading 1a	2012	2013
EU27	14 203	15 433
Croatia	89.7	97.5
as % age of EU27	0.63%	0.63%

1b Cohesion for growth and employment

Heading 1b: Cohesion for growth and employment covers the structural funds (81%) and the cohesion fund (19%).

Structural actions allocations to Member States are determined largely according to the methodology and criteria arising from the Regulations governing the structural and cohesion funds, including the capping of total structural and cohesion funding at pre-determined levels relative to total national GDP in any given year.

The Commission considers that an overall financial envelope covering the first two years of accession should be calculated for Croatia based on a similar approach as for the twelve newest Member States, including in particular a progressive phasing-in of structural actions expenditure in order to reflect the progressive increase of absorption capacity in Croatia. A gradual, two-year phasing-in is therefore foreseen at the rate of 60% in 2012 and 80% in 2013, with full phasing-in achieved by 2014. Also, one third of the total two-year envelope should go towards the Cohesion Fund to reflect the significant needs in terms of transport and environment infrastructure.

² Except for nuclear decommissioning funds for Lithuania, Slovakia and Bulgaria.

³ A key based on a combination of 50% population and 50% GDP relative to EU27 is applied.

Applying the current allocation criteria to Croatia would imply capping of total structural and cohesion funding at 3.524% of GDP. Applying the same rate of phasing-in for Croatia as used in the fifth enlargement results in capping at 2.1% of GDP in 2012 and 2.8% of GDP in 2013. Taking into account article 8 of Annex II of Regulation 1083/2006, these ceilings should include the contributions from the part of the EAFRD originating from the Guidance Section of the European Agricultural Guidance and Guarantee Fund, and from the European Fisheries Fund.

This approach should ensure a smooth phasing-in, which adequately takes into account the level of absorption capacity. Taking also into account the treatment of the Member States of the fifth enlargement, as well as the short two-year programming period, a degree of flexibility for the implementing conditions could be considered under chapter 22: regional policy and coordination of structural instruments, in particular with regard to major projects.

Based on the latest available GDP figures and growth projections, total structural and cohesion funding on this basis would amount to €2,205.1 million in the first two years of membership.

(In million EUR, at current prices)

Heading 1b	2012	2013
EU27	52 425	54 188
Croatia	915.9	1 289.2
<i>as %age of EU27</i>	<i>1.75 %</i>	<i>2.38%</i>

If hypothetically, Croatia's structural and cohesion allocations were fully phased in by 2013, this would amount €1,612 million and would represent an increase to heading 1b of 3% of overall Community expenditure in this area.

Heading 2: Preservation and management of natural resources

The main expenditure items covered by Heading 2: Preservation and management of natural resources are market related expenditure and direct payments (73%), rural development (24%), the European Fisheries Fund (1%) and the environmental programme Life + (0.6%)

Market related expenditure

For market measures under the common agricultural policy it is foreseen that the *acquis* will apply fully to Croatia as from its accession to the Union.

The market expenditure has been estimated, where possible, based on current production patterns and on the available Croatian statistics using the current legal framework for support in the different market sectors.

Taking into account the most recent agricultural market forecasts, the Commission estimates a financial envelope being necessary for agricultural market measures in Croatia during the first two years of its membership amounting to €45 million.

In addition, funding to take into account application of fisheries market measures and animal and plant health measures under Heading 2 to Croatia is estimated at €3 million per year.

In total, additional market measures expenditure to take into account Croatia's accession amounts to €18 million in 2012 and €33 million in 2013.

Direct payments

The national envelope for direct payments, production quotas and other supply management instruments has been quantified on the basis of the most recent historical reference periods for which data are available and reliable within the time span 2000-2007. Due to the fact that Croatia changed its statistical method from 2005 in accordance with Eurostat methodology and in the year 2004 no census was carried out, the revised statistics for the years 2005 – 2007 have been used as the most reliable figures available. Account has not been taken of mined areas and mine-suspected agricultural areas, on which Croatia has not yet provided sufficient information.

The calculations have been made in line with the approach used in the fifth enlargement; however, recent reforms of the Common Agricultural Policy (CAP) have also been taken into account.

In accordance with the Union's approach for the Member States of the fifth enlargement, the EU in its position CONF-HR 11/09 set out that direct payments should be introduced over a period of ten years in Croatia with the following schedule of increments expressed as a percentage of the then applicable level of such payments in the EU-15:

- 1st year after accession: 25%
- 2nd year after accession: 30%
- 3rd year after accession: 35%
- 4th year after accession: 40%

Thereafter in 10% increments so as to reach the support level then applicable in the EU-15.

By introducing direct payments based on percentage steps rather than in absolute amounts, this arrangement would provide Croatia with a clear perspective for full application of the *acquis* to it in this area.

The estimated financial cost of introducing direct payments in this way to Croatia in the first two years after accession would amount to €93.3 million in total. No expenditure would be incurred in 2012, 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.

(In million EUR, at current prices)

Heading 2		
Market related expenditures and direct payments	2012	2013
EU27 Sub-ceiling Heading 2 before	48 093	48 574

transfers and modulations		
Croatia	18.0	126.3
<i>as %age of EU27</i>	<i>0.04%</i>	<i>0.26%</i>

If, hypothetically, 100% direct payments were available in 2013, this would amount to €373 million. Together with market expenditure, this would represent an increase of 0.83% of overall Community expenditure under the sub-ceiling of heading 2 in this area.

The amounts foreseen for Croatia for market related expenditure and direct payments would need to be added to the sub-ceiling within heading 2 of the financial framework as well as heading 2 overall.

Rural development policy

As regards rural development policy, allocations are calculated in line with the method used in the fifth enlargement. As was the case in the fifth enlargement, the total envelope for rural development consists of two parts, the first part being the so-called *Guarantee origin*, and the second part the so-called *Guidance origin*.

The *Guarantee origin* part has been calculated based on relative shares of utilised agricultural area and agricultural employment in Croatia compared to the EU-12. As was the case also in the fifth enlargement, the size of the future Member State has also been taken into account.

The *Guidance part* is based on reserving for rural development measures the same percentage share (14.11%) of the total capped cohesion envelope as was applied to Bulgaria and Romania (see heading 1b above)

In order to take into account limits on absorption capacity and to ensure a steady application of rural development policy to Croatia, a gradual, two-year phasing-in is foreseen at the rate of 60% in 2012 and 80% in 2013, with full phasing-in achieved by 2014. Applying this approach results in a total two-year envelope of €483.1 million.

(In million EUR, at current prices)

Heading 2	2012	2013
Rural Development		
EU27 before transfers and modulations	12 717	12 715
Croatia	201.6	281.5
<i>as %age of EU27</i>	<i>1.58%</i>	<i>2.2%</i>

If hypothetically, rural development measures were fully phased in by 2013, this would amount to €352 million and Croatia's allocations would represent an increase of 2.8% of overall Community expenditure in this area.

European Fisheries Fund

It is foreseen that Croatia will participate fully in the European Fisheries Fund as from accession. The amounts below have been calculated taking into account paragraph 8 of Annex II of Regulation 1083/2006. The same percentage share (1.64%) of the total capped cohesion envelope has been applied as was the case for Bulgaria and Romania.

In order to take into account limits on absorption capacity, a gradual, two-year phasing-in is foreseen at the rate of 60% in 2012 and 80% in 2013, with full phasing-in achieved by 2014. Applying this approach results in a total two-year envelope of €42.9 million.

(In million EUR, at current prices)

Heading 2	2012	2013
European Fisheries Fund		
EU27	672	688
Croatia	17.8.	25.1
<i>as %age of EU27</i>	<i>2.6 %</i>	<i>3.6%</i>

If hypothetically, European Fisheries Fund allocations were fully phased in by 2013, this would amount to €31 million and Croatia's allocations would represent an increase of 4.5% of overall Community expenditure in this area.

Other Common Fisheries Policy Support

In addition to the EFF, it is estimated that Croatia's accession will necessitate an increase of €3 million per year for the control and enforcement of the common fisheries policy and data collection under the so-called second instrument supporting the CFP (Regulation EC 861/2006).

Life +

Full participation of Croatia as from its accession in the Community programme Life + should be foreseen. While there are no pre-determined specific country envelopes, an overall increase in the current envelope would be required so as to ensure there is no negative effect on the existing funding foreseen for EU27. Based on the same methodology used to determine the level of increase in the funds available for the internal policies to take account of the accession of the twelve countries of the fifth enlargement, additional funding of €5 million in the first two years of Croatia's accession would be required.

Heading 3: Citizenship, freedom, security and justice.

The main expenditure items covered by Heading 3: Citizenship, freedom, security and justice are measures for solidarity and management of migration flows (31%), funding of decentralised agencies (17%) and the Youth in action programme (8%)

3a Freedom, security and justice

For most actions and programmes under this heading, there are no specific country envelopes. However, an overall increase in the current envelopes would be required so as to ensure there is no negative effect on the existing funding foreseen for EU27. Based on the same methodology used to determine the level of increase in the funds available for the internal policies to take account of the accession of the twelve countries of the fifth enlargement, additional funding of €8.4 million in the first two years of Croatia's accession (2012 – €4 million, 2013 – €4.4 million) would be required for those spending areas under heading 3a without country specific envelopes.

In addition, country-specific allocations needs to be foreseen for the following instruments under Heading 3a. Freedom, security and justice:

- The European Fund for the Integration of Third-country Nationals

€825 million is foreseen for the period 2007 – 2013, of which €768 million is distributed among the Member States on the basis of objective criteria expressing the number of legally staying third country nationals. Application of these criteria⁴ to Croatia would result in a national envelope of €1.3 million in 2013.

- The European Refugee Fund

€628 million is foreseen for the period 2008 – 2013, of which €566 million distributed among the Member States on the basis of objective criteria relating to the number of asylum seekers and integrating persons benefiting from international protection (refugees, persons benefiting from subsidiary protection). Application of these criteria to Croatia would result in a national envelope of €1 million in 2013.

- The Return Fund

€676 million is foreseen for the period 2008 – 2013, of which €629 million is distributed among the Member States on the basis of objective criteria expressing the number of third country nationals subject or having been subject to return measures. Application of these criteria to Croatia would result in a national envelope of €1 million 2013.

Schengen Facility

Similar to what was agreed in the fifth enlargement, a Schengen facility should be foreseen as a temporary measure to deal with specific investment needs to maintain and reinforce the external borders of a European Union which includes Croatia, as well as to deal with the

⁴ The legal bases for the European Fund for the Integration of Third-country Nationals, the European Refugee Fund and the Return Fund foresee no expenditure in the first year of accession for those countries joining the EU in the period 2007-2013.

effects of Croatia's eventual entry into the Schengen system. Based on the methodology to determine the funds available to the beneficiary States in the fifth enlargement, funds amounting to €120 million in the first two years of Croatia's accession should be foreseen (2012 - €60 million, 2013 - €60 million). The modalities of implementation will be treated under the chapter 'other issues'. No funds are foreseen for Croatia in 2012 and 2013 under the External Borders Fund given the proposed availability of a Schengen Facility for Croatia.

3b Citizenship

Similar to the situation under heading 3a, an overall increase in the current spending areas without country-specific envelopes will be required so as to ensure there is no negative effect on the existing funding foreseen for EU27 under heading 3b. Additional funding of €8.9 million in the first two years of Croatia's accession (2012 – €4.4 million, 2013 – €4.5 million) is therefore needed for this purpose.

- 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 Croatia in support of institution building measures after accession similar to those agreed in the fifth enlargement, in particular through the use of the “transition facility”. For these purposes, €29 million in total should be available. Implementing modalities for the transition facility for institution building will be dealt with under the chapter 'other issues'. In this context, particular attention will be paid to ensuring appropriate complementarity with the envisaged European Social Fund support to administrative reform and institutional capacity development.

(In million EUR, at current prices)

Heading 3: Citizenship, freedom, security and justice.	2012	2013
EU27	2 105	2 376
Croatia	97.4	72.2
<i>as %age of EU27</i>	<i>4.6 %</i>	<i>3%</i>

Heading 4: EU as a global partner

No country specific expenditure is foreseen under this heading in terms of commitments. No increase is necessary to general EU expenditure in this area to take into account the accession of Croatia. From accession, Croatia will no longer be eligible for IPA funding under this heading.

Heading 5: Administration

As was the case for the new Member States of the fifth enlargement, it can be assumed that there will be no administrative expenditure specifically earmarked for Croatia. However, additional administrative expenditure will be necessary due to Croatia's accession, notably with respect to increased interpretation and translation needs. It is estimated that additional

administration costs amounting to €122 million will arise in the first two years of Croatia's EU membership.

(In million EUR, at current prices)

Heading 5	2012	2013
Administration		
EU27	8 670	9 095
Croatia	45	77
<i>as %age of EU27</i>	<i>0.52%</i>	<i>0.85%</i>

Heading 6: Compensation

In the fifth enlargement two exceptional items in favour of new Member States falling under the general heading "compensations" were agreed. The first was termed "temporary budgetary compensation" and the second was known as "cash-flow facility".

Given the general level of economic development of the then candidate countries, the principle was agreed in the fifth enlargement that no new Member State should find itself in a net budgetary position in the first years of accession which was worse in comparison with its situation in the year before accession as a beneficiary of pre-accession funds. In four cases, it was estimated that such a budgetary position would arise. *Temporary budgetary compensation* was therefore made available to the four Member States concerned.

To mitigate the impact of full application from accession of the own resources rules on the new Member States and the time lag between commitment appropriations and actual payments being made, particularly in the first year of accession, a special temporary *cash-flow facility* was made available to all new Member States of the fifth enlargement to improve their net budgetary positions.

In line with what was agreed for the countries of the fifth enlargement, it is foreseen that the own resources rules should apply in full to Croatia from the first year of accession.

Based on the level of expenditure in favour of Croatia foreseen in this Communication, it is estimated that Croatia will not find itself in a net budgetary position in the first years of accession which is worse than its situation in the year before accession as a beneficiary of pre-accession funds. No temporary budgetary compensation is therefore proposed in favour of Croatia.

As regards cash-flow facility, the Commission proposes the following amounts, based on application of a similar methodology as used in the fifth enlargement: 2012 - €170.4 million
2013 - €32.4 million.

(In million EUR, at current prices)

Heading 6	2012	2013
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Compensations		
EU27	N/A	N/A
Croatia	170.4	32.4

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The financial impact of the above proposals for a two-year period is outlined in the attached annex. In summary, to take into account the accession of Croatia, commitment appropriations totalling € 1,561 million are foreseen in 2012. This amounts to 1.06% of total EU27 commitments in the financial framework for that year. In 2013, commitment appropriations totalling €2,007 million are foreseen. This amounts to 1.32% of total EU27 commitments in 2013.

Additionally, estimates are provided for the level of payments to be generated from this new expenditure. These estimates have been calculated on the basis of the same methodology used for the fifth enlargement, adjusted to the current rules.

The financial impact of Croatia's accession on the EU27 will be mitigated by Croatia's expected contribution to the EU budget through the own resources. These contributions are estimated at €609 million in 2012 and €647 million in 2013.

For illustrative purposes, if hypothetically all expenditure in favour of Croatia were already fully phased-in by 2013, the annual cost to the EU budget of Croatia's accession would amount to about € 2,600 million. This figure constitutes 1.7% of total EU expenditure foreseen in 2013.

III. Adjusting the financial framework 2007-2013 to accommodate the accession of Croatia

An adjustment of the current financial framework 2007-2013 will be required to accommodate the results of the accession negotiations and Croatia's accession.

Article 29 of the current Inter-institutional Agreement⁵ between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management foresees that if new Member States accede to the European Union during the period covered by the financial framework, the European Parliament and the Council, acting on a proposal from the Commission and in accordance with Point 3⁶, will jointly adjust the financial

⁵ (2006/C 139/01) 14 June 2006.

⁶ Point 3 reads: "This Agreement does not alter the respective budgetary powers of the institutions, as laid down in the Treaties. Where reference is made to this Point, the Council will act by a qualified

framework to take account of the expenditure requirements resulting from the outcome of the accession negotiations.

The following table shows the increase in expenditure by heading needed to take into account Croatia's accession in the first two years of membership:

majority and the European Parliament by a majority of its members and three fifths of the votes cast, in compliance with the voting rules laid down in the fifth subparagraph of Article 272(9) of the Treaty establishing the European Community".

ANNEX I Financial Package for Croatia

(€ millions, current prices)

	2012	2013	Total
COMMITMENT APPROPRIATIONS			
1. Sustainable growth	1 005.6	1 386.7	2 392.3
<i>1a Competitiveness for growth and employment</i>	89.7	97.5	187.2
<i>1b Cohesion for growth and employment</i>	915.9	1 289.2	2 205.1
2. Preservation and management of natural resources	242.8	438.5	681.3
<i>Of which market related expenditure and direct payments</i>	18.0	126.3	144.3
3. Citizenship, freedom, security and justice	97.4	72.2	169.6
<i>3a Freedom, security and justice</i>	64.0	67.7	131.7
<i>3b Citizenship</i>	33.4	4.5	37.9
4. EU as a global partner	-	-	-
5. Administration	45.0	77.0	122.0
6. Compensations	170.4	32.4	202.8
Total commitment appropriations (Croatia)	1 561.2	2 006.8	3 568.0
Total commitment appropriations EU27	147 210	151 976	
Additional Croatia related expenditure as share of EU27	1.06%	1.32%	
Payment appropriations *	985.1	1 001.4	1 986.5

* Based on above categories of expenditure and the same methodology as applied in the fifth enlargement, adjusted to current rules.