

*José Manuel Barroso*  
*President of the European Commission*

Brussels, 20 October 2005

*Dear Tony,*

*The task before us is to give Europe the tools to deliver its policies effectively into the next decade. Agreement on the Financial Perspectives in December is essential to the credibility and effectiveness of the enlarged Europe.*

*All three institutions have done much to make agreement possible. The Commission respected the timetable for tabling its proposals. The Parliament adopted its detailed resolution last June. And the Council benefited from intensive work under a series of Presidencies, culminating in the efforts of the Luxembourg Presidency last June.*

*But we need to kick-start the negotiation soon if we are to bring it to a successful conclusion at the December European Council. The Commission would like to help in breaking the deadlock by bringing forward some ideas, which I hereby put forward for your consideration.*

*Two issues are critical to reaching a deal: the overall spending ceiling, and how the EU budget is financed.*

- On spending, we need a balance between the need for budgetary rigour, and the need to give the enlarged Union the resources it needs to respond to the challenges it faces. The Commission continues to consider the level discussed in the European Council as falling short of the Union's needs. We have set the Lisbon strategy goals with an emphasis on competitiveness and knowledge, and are expanding our external commitments, including on development. Although it reflected a strong body of opinion amongst Member States, the level proposed last June was inadequate to meet our stated commitments – for example in the area of research or the new needs for action on immigration and asylum. It also did nothing to close the gap between the Council and Parliament. Closing the gap is key to a successful outcome.*
- On the revenue side of the EU budget, no change from the status quo, no movement from entrenched positions, will mean no deal. We need to face an increase in expenditure: the cost of enlargement. We have to decide now how to share it. The only option is to find a reasonable balance based on ability to pay and a fair distribution of the costs. To find this balance needs flexibility on all sides. If one Member State is to pay less, others will have to pay more. All Member States need to show*

*flexibility. The proposals made on burden sharing by the Luxembourg Presidency were complex, but were a fair and balanced approach: if there is to be an agreement, the final result will probably not differ radically from the proposals on the table in June. The challenge facing us now is to ensure that any adjustments are fair and politically acceptable, and to present them in a clear and transparent manner.*

*The negotiations in the first half of the year became entwined with a number of important political debates. We saw an apparent opposition of "old" and "new" policies. A clearer link between future spending patterns and future policy reform was proposed. There were concerns about how the measures proposed might have knock-on effects on the institutional balance. And the spotlight remains on how the Union can respond effectively and swiftly to the impact of globalisation.*

*Attached are a set of proposals which I believe can help lead to the deal we all want in December. They seek to:*

- Give new impetus to competitiveness, in particular research and innovation, through cohesion policy;*
- Absorb the shocks that are part and parcel of globalisation;*
- Consolidate and complete the current agricultural reforms;*
- Set out a roadmap to modernise the budget;*
- Increase the democratic scrutiny and coherence of external policy.*

*The budget exists to serve the policies of the Union, to deliver strategic objectives for Europe: prosperity, solidarity, security. The citizens and taxpayers of Europe will only be confident that their money is well spent if they see it as linked to the policy goals they hold dear, not as some accounting exercise divorced from their interests. Differences in this negotiation remain, but they are nothing as compared to what is at stake: the cost of no agreement will be huge in terms of depressed confidence, delayed convergence, poor growth, lost jobs: and this cost will be borne by the poorest citizens and areas of the Union. We cannot allow the Union to be condemned to ineffectiveness by failing to devote all our energy and imagination to reaching agreement this year.*

*My intention in coming forward with these ideas now is not to seek any discussion on this subject at Hampton Court. I believe, however, that, building on the momentum of what I hope will be a consensual discussion at the informal summit, these proposals will help launch the final phase of negotiations from early November to the agreement we all want in December.*

*I have sent a letter with the same content as this one to President Borrell of the European Parliament and to the Heads of States and government.*

*Yours sincerely,*



*José Manuel BARROSO*

## FIVE PROPOSALS TO RELAUNCH NEGOTIATIONS

### **Increasing resources for growth and jobs**

The Union's core priority is growth and jobs.

Cohesion policy must promote economic modernisation and create growth and jobs. A new approach is needed to the way these policies boost growth.

- A **specific earmarking of funds from cohesion spending** would reinforce the drive for growth and jobs. The first step is to identify and ringfence the investment provided under cohesion policy for competitiveness, in particular through research and innovation, human capital, business services, major European infrastructures, improvement of energy efficiency and renewables.

This contribution should increase in line with the acceleration of the Lisbon strategy. Each Member State should set a target to increase the proportion of cohesion spending devoted directly to competitiveness. This target should be set by Member States above an average minimum of 60% of total cohesion spending.

In the run-up to the Spring European Council each year, Member States would report on this spending to the Council and the European Parliament, as an integral part of the reporting mechanisms to comply with the agreed objectives for growth and jobs.

- A similar mechanism would be established in respect of **rural development**.

The result of this earmarking would be to increase the share of spending linked to the new Lisbon strategy to at least a third of the EU budget.

### **Meeting the challenge of globalisation: a shock absorber**

A Globalisation Adjustment Fund would offer a European response to help those adjusting to the consequences of globalisation: a sign of solidarity for the many who benefit from openness to the few who face the sudden shock of losing their job. It would provide a swift answer to one-off, clearly defined problems resulting from restructuring. No new bureaucracy is needed: existing instruments and networks could be used, but access to extra resources is necessary.

The Fund would cover training, relocation of workers, outplacement: the costs of action to help find a new job. Clear criteria on the nature of the crisis and the scale of the eligible costs will be set out. Not all restructuring would qualify: this would be a crisis mechanism to be used only to address significant economic and social shocks related to globalisation. It should only intervene if a threshold is reached, defined in terms of the proportion of workers hit by redundancy in the



sector and the region concerned, and the local jobless rate. To be cost-effective, this instrument will be delivered through existing Structural Fund instruments and using the same rules.

This resource would lie outside the financial framework (as already the case for the EU Solidarity Fund) and would be mobilised only when needed. Needless to say, the decision on whether to use this option would rest with Parliament and Council.

### **Consolidating the current agricultural reforms**

In 2002, an agreement was reached on a budget for the Common Agricultural Policy until 2013, going hand in hand with a fundamental reform of agricultural policy, which is still being implemented and spread to the full range of sectors. This agreement should be fully respected.

One of the key reforms was to introduce more dynamism into agricultural spending by shifting funds from direct aids for farmers to rural development. Increasing the pace of these shifts by 1 per cent a year from 2009 would release extra funds to have a direct impact on growth and jobs in rural communities. It would also boost the funding for the Union's innovative conservation network, NATURA 2000.

### **Modernising the budget: a roadmap for review**

There is a broad consensus on the need for a fundamental review of the EU budget. This will take time, but it also needs to be carefully planned: the European Council should set out the precise parameters and the timetable for this review.

There is already a built-in agenda of sectoral reviews pre-programmed for the coming years: for the operation of the CAP in 2008, and for the Lisbon strategy in the same year. But a more over-arching review is also needed.

The Union should commit itself to carrying out a comprehensive review of all aspects of the organisation of the EU budget – expenditure, revenue and structure – with a view to ensuring that the budget is equipped to respond to the challenges of the future. The review would be launched by a White Paper on modernisation of spending and revenue to be put forward by the Commission early in 2009.

### **Increasing democratic scrutiny and coherence of our external action**

In the past weeks the Union has made a series of bold commitments to promote the Millennium Development Goals. These commitments have a price and we have decided to pay the bill. Now it will be for the Union to deliver. The level discussed in the European Council are not sufficient to meet these commitments. On the other hand, it cannot be envisaged to withdraw our

commitments, or delay their implementation, especially regarding the poorest countries.

The split in EU spending between mainstream budget spending and the European Development Fund (EDF) is detrimental to the coherence of the EU external action. "Budgetisation" of the EDF remains the best option. If this proves impossible, a step towards it would be to integrate the EDF into the traditional mechanisms for external spending, while retaining a separate repartition key during a transitional period. Such a compromise would require that appropriate provisions would guarantee the European Parliament's rights in this area.

In order to preserve the proper role of the European Parliament in the simplification and enhanced effectiveness of the Union's external action, a specific inter-institutional agreement should be agreed to ensure a proper role for Parliament in policy definition for external spending.