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Delegations will find attached the declassified version of the above document.

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REPORT

from : Presidency
on 15 November 2002
to : Council (General Affairs and External Relations)

Subject : Negotiations with Acceding Countries in the final phase of negotiations
- State of play

1. Overall

Starting immediately after the European Council in Brussels informal meetings have been held between the Presidency and the Commission and each of the deputies from the 10 countries engaged in the final phase of negotiations. Two full rounds of intense discussions have been held. The meetings proved to be a good mechanism to identify and focus on the remaining issues in the accession negotiations (mostly issues on agriculture and budget, but also a number of other issues including the question of reopening of chapters; A number of specific issues ranging from shooting of bears to neutrality are also being raised). Most acceding countries showed some degree of flexibility in finding compromise solutions to most of the outstanding issues and responded positively to movements on the EU side by reducing demands. However, on the main horizontal issues the difference between the positions of the EU and the acceding countries, in particular as regards agriculture and financial and budgetary provisions remains considerable.

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2. Agriculture

Direct income support: Most acceding countries disagreed with the EU proposals for direct payments and ask for a shorter phasing-in period and/or request higher starting levels than the 25% proposed by the EU. Most delegations acknowledged the limited room on the EU side for manoeuvre but asked for flexibility in other areas like quotas or budget compensations. With a view to leveling the competition between agriculture in present and new member states some acceding countries request the possibility to top-up EU subsidies by offering their farmers national subsidies up to 100% level of CAP support offered to existing Member States. Some acceding countries might be willing to compromise on national top-ups up to the national income support level reached in the year before accession or to have a level in between.

Quotas: All acceding countries request improved offers by the Union, citing unrepresentative reference years due to the restructuring of the agricultural sector and rising domestic demand. Negotiation positions are approximating in some sectors on the understanding that reference quantities must be based on recent production, in other cases the divergence remains substantial. Considerable differences continue in particular as regards the milk quota, the sugar quota, suckler cows, the beef premium quota and to some extent arable crops (both the reference yield and the base area).

Compensation for increased prices: Some acceding countries seek a compensation for price increases resulting from future obligation to buy at EU guarantee price instead of lower world market prices, either financially or through exemptions from state aid rules.

Rural development: Some countries request an increase of funds for rural development measures. Requests exceed the available 5% reserve.

3. Budget

Cash flows: Many delegations express considerable worry about the risk of not only being worse off in financial terms – in particular in 2004 – than in 2003, but being outright net contributors to the budget. Some acceding countries have highlighted that they have to pre-finance direct payments in agriculture whilst receiving advance payments for structural funds of 16% which they will not be

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able to spend. They prefer reduced advance payments, split over two years, or/and expect that real payments for 2004 structural funds to be lower than 3%. They have also suggested that they should be allowed to use the advance payments for other costs.

Lump sum rebate: Some acceding countries questioned the calculation of pre-accession aid for the year 2003 as being underestimated. Some also requested compensations or review clauses for the case that accession including implementation of EU policies will cause an overall negative effect on their budgets. A number of acceding countries insist that phasing-in of budgetary contributions must as a matter of principle continue for the same duration as the phasing-in of budgetary receipts.

€2.5bn from reduction of structural fund allocation: A number of acceding countries request that the €2.5bn saved from the reduction of structural funds allocation can be used in other areas, e.g. rural development or in Schengen/external borders compensation payments. Some acceding countries noted that this would help to overcome structural net balance problems.

2003 expenditure: A number of acceding countries are questioning their participation in costs on the 2004 budget which refers to refunds of expenditure by present EU member states in 2003. In particular the UK rebate has been mentioned in this respect.

Nuclear Safety: Lithuania notes that the actual needs for the decommissioning of Ignalina would lead to a sum above €10m. Slovakia requests an engagement with regard to further support for the decommissioning of the Bohunice NPP beyond 2006.

4. **Safeguard Clause**

Special Agriculture Safeguard Clause: a number of acceding countries are considering to request a special safeguard clause for the agricultural sector, following the example of the three clauses proposed by the Union, although agriculture is in principle as an economic sector covered by the general economic safeguard clause.

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5. Reopening of chapters

Free movement of Capital: A number of acceding countries are considering to reopen the issue of land purchase (Hungary has already submitted a formal request) following the agreement reached with Poland, and explicitly underlined that in case the issue was reopened with one country they would all need to reopen the issue.

Other chapters: Some acceding countries wish to reopen chapters (i.e. taxation and environment) in order to agree on additional measures, in most cases to obtain the same concessions that were offered to other candidates who concluded the negotiations later.

6. **Negotiation chapters not yet provisionally closed:** Negotiation positions on agriculture¹, financial issues and safeguards have been handed over to the candidates. Substantive discussions on these constitute the main topics for the discussions in the informal meetings described above. Any agreement reached will have to be confirmed in an official negotiation meeting within the framework of the Accession Conferences. In addition, work is progressing on the remaining outstanding issues. For Poland progress is being made towards completing the competition chapter and on veterinary and phytosanitary issues. Discussions with Hungary on competition policy is still to be completed. On Malta two chapters (taxation and customs union) are outstanding, but solutions are likely to be linked to results on some of the issues set out above.

¹ The open issue of Tocai wine still impede the transmission of part of the agricultural chapter to the relevant candidates.