



EUROPEAN COMMISSION

Office of President José Manuel Barroso
Head of Cabinet

Brussels, 12 December 2005
D(2005)

H.E. Sir John Grant
Ambassador
United Kingdom Permanent Representation
to the European Union
Avenue d'Auderghem 10

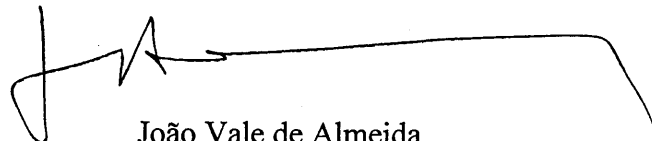
1040 Brussels

Dear Ambassador, *Dear John,*

I attach a letter from the President to Prime Minister Blair, in his function as President of the Council of the European Union, on the Financial Perspectives.

I am sending a copy of this to other Permanent Representatives and the Head of Cabinet of the President of the European Parliament.

Yours sincerely,



João Vale de Almeida

José Manuel Barroso
President of the European Commission

Brussels 12 December 2005

Prime Minister,

Dear Tony,

Since the publication of your last proposals for the Financial Perspectives, you have heard the views of other Member States at the conclave, you have spoken to many EU leaders and we have had a frank and open discussion ourselves. This week, the Union has an opportunity to take a decisive step forward for Europe. I am confident that it has the courage and imagination to show that it is capable of resolving the most sensitive of dossiers.

*I think there is widespread support for a budget that looks to the future, a budget that delivers effective results, a budget that reflects our values of fairness and solidarity. This is where we need to improve on the current proposals. And it is also why I have proposed **a comprehensive review clause, both to reach a deal now and to allow a medium term overhaul of the EU's budget.***

I would also hope that there is a common recognition that however important it is to reach an agreement among Member States, it will not be the final stage: the Financial Perspectives is a shared responsibility of the three institutions.

The Rt Hon Tony Blair
Prime Minister
10 Downing Street
SW 1A 2AL LONDON
UNITED KINGDOM

With this in mind, I am writing to set out the principles which I believe the final agreement must respect and on which I will base the Commission's position in the end. They supplement the proposals I made in October and which I believe are still valid, including on the review clause.

*1. Ambition. I was disappointed by the level of expenditure proposed in June. You have proposed to cut that further. As I have made clear, I do not believe that this is a credible approach to deliver a modern, dynamic, open and fair EU. Current and future enlargement, competitiveness and trade openness cost money. **The final deal must therefore increase total spending, significantly, with an emphasis on the elements supporting a modern growth and jobs agenda addressing the needs of citizens.** If Europe is to meet the competitive challenge of a globalised world, for example in research and development, it needs the means to do so. And the review clause must leave open the possibility for greater ambition further ahead.*

*2. Fairness. The proposals you have put on the table need to change in two ways. Firstly, fairness towards the new Member States. To make the last enlargement work, and to allow the possibility of future enlargements, **the new Member States need to be offered significantly higher levels of investment than in the current proposals.** It should be up to them to prove they can absorb these amounts. Secondly, fairness in the sharing of the financing of an enlarged EU. The UK has agreed, in the past, to deduct from the abatement windfall gains from enlargement. It is clear from all recent discussions that a further effort from the UK can unlock agreement. So **the UK must make a further change to the abatement, linked to enlargement. Since enlargement is permanent, so should be this change.***

3. Modernity. We need a budget which meets the challenges of today and tomorrow, challenges outlined at our informal meeting at Hampton Court. We need to support Europe's competitiveness, security and role in the world. The budget needs to show confidence in existing policies and in Member States' ability to implement these effectively. That means more, better focussed expenditure.

Concretely, this means earmarking Lisbon-related cohesion spending for all Member States in Heading 1B, with ambitious targets to be agreed between Member States and the Commission, with realistic targets phased in for Member States with a low starting point. Similarly, we should avoid a reversal of the modernisation of agricultural policy agreed in 2003, of which the shift to rural development was so central. Any cuts in rural development in Heading 2 should be mitigated so that they do not fall too heavily on any Member State.

Nor can we withdraw from the critical task of reconnecting with our citizens. This means restoring the amounts suggested in June for the citizenship programmes in Heading 3B. It also means devoting part of the resources for our relevant external policies, including a fixed share from our neighbourhood policy, directly to addressing the issue of migration on Europe's borders.

4. Coherence. We should avoid different policies for different parts of the EU, old and new. We cannot, for example, have one cohesion policy for the 15 which is about competitiveness, and another for the new Member States which looks more like old fashioned hand outs. Eligibility rules need to be the same for all Member States. So, for example, I ask that you apply any new decommitment rules to all Member States, and for the whole financing period, for the Cohesion Fund only. Rules concerning new areas of spending, the disciplines and control must be based on a Commission proposal.

5. Flexibility. The lower the level of ambition, the greater the need for flexibility if we want to be able to react quickly to rapid changes in a globalised world. In its resolution on the Financial Perspectives, the European Parliament has put forward ideas on flexibility which require serious consideration. The Commission's approach to the Globalisation Adjustment Fund, with its financing outside the headings of the Financial Perspectives and modelled on that of the Solidarity Fund, also goes in the direction of helpful flexibility.

6. Value for money and proper management. Some of the proposals in the negotiating box may undermine this. For example, voluntary modulation on rural development may damage the single market in agriculture, creating unfair conditions between different member states. **We need to stick to enhanced compulsory modulation, as I proposed in October. Another example is the proposed cut in administration, which has to be undone completely.** This is a false economy which I cannot accept. It would delay the process of bringing our institutions up to speed with the last enlargement, and leave nothing left for Bulgaria and Romania.

As I have said, the final deal requires the agreement of the European Parliament. It has a central role in fixing and ensuring the proper management of the budget. **So there needs to be greater openness to the input of the European Parliament.** For example, I strongly support their proposal for a statement of assurance on the budget by Member States. I also ask for rapid adoption of the proposed improvements to the Financial Regulation. Both measures would improve the quality of budgetary management.

This is an important week for Europe. We must devote all our energies to finding a deal which respects these principles and allows the EU to move forward. I am therefore asking you to take full account of the above proposals in the days ahead.

I am copying this letter to the Heads of State and Government, as well as to the President of the European Parliament.

Yours,



José Manuel Barroso