



European Commission

General Report
on the Activities of
the European Union

2004

Brussels • Luxembourg, 2005





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The President and the Members of the European Commission to the President of the European Parliament
 Sir,

We have the honour to present the General Report on the Activities of the European Union for 2004, which the Commission is required to publish by Article 212 of the EC Treaty and Article 125 of the EAEC Treaty.

In accordance with the procedure described in the declaration on the system for fixing Community farm prices contained in the Accession Documents of 22 January 1972, the Commission will shortly be sending Parliament the 2004 Report on the Agricultural Situation in the European Union.

And, in accordance with an undertaking given to Parliament on 7 June 1971, the Commission is preparing its XXXIVth Annual Report on Competition Policy.

Yours faithfully,

Brussels, 8 February 2005

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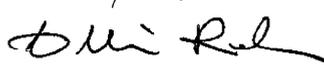
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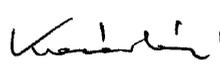
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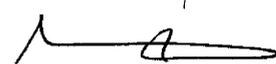
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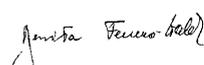
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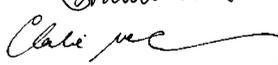
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General introduction

With the accession of 10 new Member States on 1 May and the signing of a new Treaty establishing a Constitution for Europe six months later, the year 2004 proved that, for all the difficulties, it is possible to enlarge and consolidate the European Union at the same time. Indeed, given the scale of this enlargement operation, from 15 to 25 Member States, the two processes actually drew strength from each other.

Timely ratification of the Treaty signed in Athens in 2003, which laid the legal basis for the accession of 10 new countries to the European Union (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) enabled enlargement to take place, as planned, on 1 May 2004. To give full effect to the new configuration of the European Union, steps to adapt current Community legislation continued in a number of areas, including the free movement of goods and agriculture. Work also began on preparing the ground for introducing the euro in the new Member States in the short or medium term. And measures were adopted to accommodate the special position of Cyprus, following failure of the United Nations reunification plan for the island; these included financial assistance for the development of the northern part of the island.

EU enlargement is now an ongoing process, and 2004 saw further developments at various stages along the way. Accession negotiations with Bulgaria and Romania, which had applied for membership at the same time as some of the new Member States, were completed at the end of the year, and an accession treaty is due to be signed in 2005, with a view to accession in 2007. Croatia has been accepted as a candidate for membership, and negotiations with it should begin in early 2005. And another western Balkan country, the Former Yugoslav Republic of Macedonia, has also applied for membership. Finally, in December, in the light of Turkey's progress in introducing reforms and the positive signals it has given about settling the Cyprus question, the European Council decided to open accession negotiations, in principle in October 2005, subject to certain conditions being met by then, particularly with regard to further reforms.

In order to ensure the proper working of an enlarged European Union based on shared values and to consolidate policies that have changed substantially since the Treaty of

Rome in 1957, a Treaty establishing a Constitution for Europe was signed on 29 October. The new Treaty, which was also signed in Rome and thus marks a symbolic return to the origins of the Community, was the result of a unique process begun in the Convention on the Future of the European Union and completed at the Intergovernmental Conference. Its aim is to provide the enlarged Union with the means it needs to attain its objectives, and to do so more efficiently. On the internal front, these relate primarily to creating an area of freedom, security and justice and an internal market open to competition, promoting sustainable development, scientific progress and economic and social cohesion, combating social injustice and preserving Europe's cultural heritage. On the international front, the Union must assert and promote its values and strive to contribute to peace, security, the sustainable development of the planet, free and fair trade, the elimination of poverty and the protection of human rights. Incorporation of the Charter of Fundamental Rights into the Treaty is one of the new means to these ends. Others include extension of the use of qualified-majority voting, new powers in the field of economic governance and new areas of activity, and the creation of a new post of European Union Minister for Foreign Affairs. For the new Treaty to enter into force it must now be ratified by each of the 25 Member States.

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The timetable for 2004 dictated that these major developments — the arrival of 10 new Member States and the signing of the Treaty on the Constitution — coincided with the election of a new European Parliament and the appointment of a new Commission. Because of the enlargement on 1 May the handover was completed in two stages. In the final months of its mandate, the Prodi Commission was joined by one Commissioner from each of the new Member States, bringing the number of Members up to 30. In June the Council nominated José Manuel Barroso, the Portuguese Prime Minister, as President of the future Commission. In July his appointment was approved by the European Parliament, whose 732 members had been elected a few weeks earlier. A list of 25 nominees for appointment to the new Commission, one from each country of the enlarged European Union, was then drawn up. A number of changes were made to the original list as a result of problems during the parliamentary hearings, and the composition of the Commission was not approved by Parliament until 18 November. The new Commission was then definitively appointed by the Council and took office on 22 November for a five-year term. Javier Solana was reappointed to his dual function of Secretary-General of the Council and High Representative for the Common Foreign and Security Policy. Consensus has been reached among the Member States that he will hold the post of European Foreign Minister created by the future Constitution when the new Treaty enters into force, and in this capacity will have a seat in both the Council and the Commission in accordance with the institutional balance.

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This Report is divided into subject-related chapters, highlighting a number of key points corresponding to the year's main achievements and giving an overall impression of the activities of the European Union in 2004. We shall focus in this introduction on a few issues that were particularly significant.

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First it is important to make the point that the activities of the European Union cannot be viewed in isolation from the external context in which it operated.

With its newly expanded external frontiers, the European Union sought to give greater substance to the neighbourhood policy it has been gradually developing over the past two years. Action plans have now been finalised for some of its neighbours in eastern Europe and the southern Mediterranean. The interest shown in the electoral processes in countries such as Ukraine and Belarus takes on special significance in view of the defence of 'common values' promoted under this neighbourhood policy.

The continuing conflict in Iraq and the persistence or emergence of other crises elsewhere that once again dominated the headlines across the world in 2004 have prompted the European Union to consolidate its advances in the area of security and defence. The replacement of the NATO-led multinational stabilisation force in Bosnia and Herzegovina by the Union-led military operation 'Althea' is a potent symbol of this, as is the launch of the first rule of law mission in Georgia and the Eupol-Kinshasa police mission in the Democratic Republic of the Congo.

On a more general level, the first steps were taken to implement the European security strategy adopted at the end of 2003: in June the European Council approved an action plan to combat terrorism and endorsed an EU strategy on weapons of mass destruction. A European Defence Agency was also set up.

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On the internal affairs front, new initiatives were launched in two policy areas in this crucial year.

First, the creation of an area of freedom, security and justice in the European Union was given fresh impetus. In November the European Council adopted a new multiannual programme for 2005 to 2009, 'the Hague programme', which was largely based on the Commission's progress report on implementation of the 1999 Tampere programme. The new programme sets out priorities for future action in the various areas concerned and reflects the ambitions expressed in this connection in the Treaty establishing a Constitution for Europe. It covers all aspects of the policies involved, including their external dimension, encompassing fundamental rights and citizenship, asylum and immigration, border management, integration, the fight against terrorism and

organised crime, judicial cooperation in civil and criminal matters, and police cooperation. A drugs strategy was added to the programme in December. The European Council stressed the vital importance of creating appropriate European legal instruments, reinforcing practical and operational cooperation between the relevant national agencies, and implementing the agreed measures promptly.

Second, pursuit of the Lisbon strategy developed in 2000 with a view to promoting a dynamic European economy based on knowledge, competitiveness and growth that is compatible with higher employment and greater social cohesion was also given new momentum. In advance of the mid-term review of the strategy, planned for spring 2005, the Commission charged a high-level group chaired by former Dutch Prime Minister Wim Kok with conducting a preliminary assessment. Its report, in November, drew two conclusions: firstly that there was an urgent need to speed up the implementation of the Lisbon strategy, and secondly that the challenges facing Europe had increased since the strategy was launched. The Council agreed with this analysis. The European Council, for its part, reaffirmed the importance of implementation by the Member States of the measures agreed under the Lisbon strategy and welcomed the Commission's intention of maintaining the strategy at the heart of its agenda.

The conclusions and calls for a new impetus to be given to the Lisbon strategy reflect an awareness of the difficulties experienced with its implementation. In general terms, these are due to continuing delays and failings in transposing Community directives into national legislation. More specifically, they are due to the impasse on a number of dossiers, for example the legislation relating to the introduction of a Community patent. Consequently, revitalisation of the Lisbon process has now assumed huge political importance.

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Looking ahead, one of the key issues remains the preparation of the financial perspective for the period 2007 to 2013 to underpin the activities of an enlarged European Union that is due to expand even further. Building on the initial guidelines drawn up in 2003, the Commission has now given a more detailed picture of the approach it advocates.

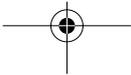
- On the conceptual level, the Commission issued a communication in February setting out the policy challenges and budgetary means of an enlarged European Union and identifying as key priorities the promotion of sustainable development, the development of European citizenship, and the strengthening of the Union as a global partner; it also emphasised the need to improve the budgetary procedure in order to allow a more effective response to emergencies or economic crises; this first outline was followed by a second communication presented in July with a view to renewing the interinstitutional agreement on budgetary discipline and improving the budgetary procedure.

- At the operational level, in July the Commission presented a first package of legislative proposals for programmes and instruments in areas including social policy and employment, economic and social cohesion, transport, agriculture and rural development, fisheries, education and culture. In September it recommended simplifying the existing system for providing external assistance by rationalising the instruments involved; it also added to its initial series of legislative proposals a new package relating to the environment, nuclear energy, pre-accession, neighbourhood policy and development cooperation.

In addition to its purely financial content, the perspective outlined by the Commission gives a more detailed picture of what amounts to a new architecture for the European Union up to and beyond 2010, which is the point of reference for several ongoing policies such as the Lisbon strategy, and transport and energy.

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The year 2004 undoubtedly marked a watershed in the evolution of the European Union. Europe emerged a substantially enlarged political entity, and a new Parliament and a new Commission began their terms of office. The first steps were taken to endow Europe with its own Constitution. And, at the same time, work started on drawing up a strategic financial framework that will give the European Union the means to match its ambitions.





Chapter I

Institutional questions and the future of the Union

The Treaty establishing a Constitution for Europe was signed on 29 October in Rome. Embodying the common values of the European Union, it is designed to frame the Union's policies and determine its modus operandi. At the European Council meeting in Brussels on 17 and 18 June, the Heads of State or Government of the 25 Member States reached an agreement on the outstanding issues at the level of the Intergovernmental Conference charged with finalising the Treaty. Prior to the Intergovernmental Conference, the groundwork had been carried out by the Convention on the Future of the Union, which had prepared a draft text in July 2003. Before it can enter into force, the Treaty must be ratified by each of the 25 Member States, through parliamentary channels and/or by means of a referendum.

Throughout 2004, various other institutional matters were also addressed.

For instance, the Commission approved a report reviewing the progress made in 2003 and 2004 in implementing the reform of European governance initiated as a result of its 2001 White Paper, and looking at the overall situation at the end of the Prodi Commission's term of office. Moreover, the European Parliament and the Council gave their views on the Commission's 2002 communication concerning an operating framework for regulatory agencies.

Mindful of the fact that the quality of legislation can play a part in boosting growth and competitiveness, the European Council called on the Council to pursue a suitable programme of actions. The Commission meanwhile took stock of the implementation of the framework action 'Updating and simplifying the Community *acquis*', which it launched in 2003. The Commission also produced a report assessing the impact of Community legislation particularly from the point of view of citizens and businesses.

As is customary, the Commission presented its annual reports on the application of the principles of subsidiarity and proportionality, and on the work of the associated

committees, in the context of the relevant committee procedures, through the powers conferred on it by the legislator.

Key points

- *The purpose of the Treaty establishing a Constitution for Europe is to make the enlarged European Union more democratic, more transparent and more efficient.*
- *The Constitution is made up of four parts:*
 - *Part I contains the provisions which define the Union, its objectives, its powers, its decision-making procedures and its institutions;*
 - *the Charter of Fundamental Rights adopted in 2000 has been incorporated into the Constitution as Part II;*
 - *Part III focuses on the Union's policies and actions, and includes many of the provisions of the current Treaties;*
 - *Part IV contains the final clauses, including the procedures for adopting and revising the Constitution.*
- *Signed in Rome on 29 October, the Treaty establishing a Constitution for Europe will enter into force on 1 November 2006 if all the Member States have ratified it by that date. The ratification process will be conducted in each Member State in accordance with their respective constitutional rules (through parliamentary channels and/or by means of a referendum).*

Chapter II

Enlargement

Once all the parties to the Treaty of Accession, signed in Athens on 16 April 2003, had completed the constitutional procedures necessary for its ratification, the Treaty entered into force on 1 May 2004, as its authors had wished.

Efforts to adapt existing Community legislation continued so as to allow the 10 new Member States to accede to the Union on 1 May. New laws were adopted by the Council and the Commission in areas such as the free movement of goods, company law, agriculture, education, culture and external relations.

Measures were introduced to take account of the special situation of Cyprus as an island divided into two communities. Following the Greek Cypriots' rejection of the UN peace plan in a referendum, the Council defined the terms under which Community law would be applied to persons and goods crossing the 'green line' dividing the north and south of the island. The Commission proposed measures to facilitate trade between that part of the island not under Cypriot government control and the Community customs territory, to which it provisionally does not belong. The Commission also proposed financial assistance measures specifically for that area of the island.

The process of enlargement to other countries continued in various forms, as set out in the annual strategy paper adopted by the Commission on progress achieved and in its accompanying regular reports on the situation in the different countries. The accession negotiations were completed with Bulgaria and Romania, whose applications had been accepted at the same time as some of the new Member States. The Commission proposed an EUR 15.4 billion commitment to assist the two countries in the first three years after their scheduled date of accession, 1 January 2007. The December European Council endorsed the closing of the negotiations with a view to the Accession Treaty being signed as early as possible in 2005.

The December European Council also decided to open accession negotiations with Turkey in the light of an opinion delivered by the Commission in October. The decision was taken

in recognition of the progress achieved by Turkey on reforms and of the positive signs regarding settlement of unresolved border disputes with current Member States. Continued efforts in that direction should allow negotiations to start in October 2005.

In response to a favourable Commission opinion on Croatia's application, the June European Council decided to open the accession negotiations at the start of 2005. The terms and conditions applying to the procedure were specified at the December summit. In September the Council agreed a 'European partnership' with Croatia, as it had in March with the other western Balkan countries. On 22 March, the Former Yugoslav Republic of Macedonia also submitted an application for EU membership.

On the financial front, the Commission proposed the establishment, in conjunction with its proposals on the financial perspectives for 2007–13, of an instrument for pre-accession assistance (IPA) to take over from Phare, ISPA, Sapard and CARDS, and cover current and future applicants. For the period 2004–06, the Council laid down a general approach for reallocating the resources still available under Sapard and ISPA based on a 30/70 % split between Bulgaria and Romania. As part of preparations for the pre-accession strategy for Croatia, the Commission proposed allowing that country access to all three of the existing pre-accession instruments.

Key points

- *1 May: the Europe of 25 became a reality. The accession of 10 new Member States to the European Union on that date was the biggest enlargement ever in the history of the Union. The accession negotiations with Bulgaria and Romania were completed at the end of the year to allow both countries to join the EU in 2007.*
- *20 April: the Commission recommended opening accession negotiations with Croatia, which had submitted its application on 21 February 2003. Based on this recommendation, drawn up in the light of the political and economic criteria laid down at the 1993 Copenhagen European Council, the June European Council decided to convene a bilateral intergovernmental conference with Croatia early in 2005 in order to begin negotiations.*
- *6 October: the Commission recommended opening accession negotiations with Turkey, subject to its adoption of certain key items of legislation currently in preparation. The recommendation is based on a report assessing the situation of human rights, democracy, the rule of law and minority rights. Though convinced that the accession process will be essential in guiding further reforms in Turkey, the Commission underlines the open-ended nature of the negotiations: the objective — accession — is plain but the outcome cannot be guaranteed beforehand. In response to this recommendation, the December European Council decided to start negotiations in October 2005 provided certain conditions are met.*

Chapter III

Economic and monetary policy

Against the background of a generally favourable international environment, economic growth in the European Union picked up noticeably in 2004. The main reasons were first the growth in exports but also a faster expansion in internal demand, together with a healthy macroeconomic environment stemming from a balanced policy mix. This was tempered, however, by rising commodity prices throughout the year.

The enlargement of the Union on 1 May also marked a watershed in the process of economic integration because, since their accession, the 10 new Member States have been fully involved in the economic coordination mechanisms existing within the Union, this being a decisive phase in a process that got under way prior to accession.

Such was the backdrop to the initial groundwork for the mid-term review of the strategy laid down in Lisbon in 2000 by the Heads of State or Government with a view to making the Member States' economies significantly more competitive. The cornerstone of this updating exercise was the report produced in 2004 at the request of the European Council by a high-level group chaired by Mr Kok, the former Dutch Prime Minister.

In response to the call made by the European Council in June, the Commission presented ideas for strengthening economic governance and clarifying the implementation of the Stability and Growth Pact in order to ensure that the debate was conducted transparently and in close cooperation with the Member States. The Council issued recommendations concerning the measures to be taken to remedy the excessive deficits of several Member States, both old and new. It also issued opinions on the updated stability programmes of the Member States participating in the euro, on the convergence programmes of the three 'old' Member States not participating in the euro and on the convergence programmes of the new Member States. The Court of Justice, to which the Commission had referred the matter, revoked the Council conclusions of 25 November 2003 regarding the excessive deficit procedure for Germany and France.



For its part, the European Central Bank, which has exclusive responsibility for monetary policy in the euro area, pursued a policy geared to maintaining price stability in the medium term, thereby helping to promote growth and employment in the area.

Key points

- *In view of the difficulties encountered in implementing the Stability and Growth Pact, the Commission submitted proposals aimed at reinforcing and clarifying implementation of the pact. These proposals seek to underpin macroeconomic stability and to guarantee viable public finances while improving the European Union's growth potential.*
- *The Commission has published a report on the practical preparedness of the new Member States for the euro. The report shows that the 10 new Member States wish to join the euro area between 2007 and 2010. The introduction of the single currency looks set to be smoother and more rapid than in the present members of the euro area. Around half the population has already used euro notes and coins. That said, the citizens of the new Member States must be assured that the transition will be made smoothly and will be beneficial for them.*



Chapter IV

Employment and social policy

As far as social policy is concerned, 2004 saw the completion of several projects which had been started or revived in the previous year. The social protection sector featured prominently, with the adoption of two regulations dealing with the coordination of national social security systems and the simplification of procedures for patients in need of healthcare in a Member State other than their own. Moreover, in connection with freedom of movement, a directive on the right of EU citizens and members of their family to move and reside within the territory of the Union was adopted.

A great deal of legislative activity also took place in the field of health and safety at work. For example, the directive on exposure to electromagnetic fields was adopted and the first steps were taken to consult the social partners on three issues: carcinogens, musculo-skeletal disorders and workplace violence. Additionally, the social partners reached an agreement on work-related stress, which they undertook to implement.

As part of the process of streamlining the European employment strategy, begun in 2003, and responding to the European Council's call for urgent action on the employment front, the Council adopted, on the basis of a proposal from the Commission, a joint employment report, guidelines broadly reflecting those laid down in 2003 and recommendations for the implementation of employment policies in the Member States. Moreover, the Commission drew up a communication aimed at boosting the employment of older workers and delaying their departure from the labour market.

Seeking to combat all forms of social exclusion, the Commission took a number of initiatives in other areas. For instance, it adopted a Green Paper analysing the progress made and the obstacles still to be overcome as regards discrimination on grounds of sex, race, religion, age, disability and sexual orientation. It also presented a report on the challenges facing the new Member States of the European Union from the point of view of combating poverty and social exclusion, and promoting greater social cohesion.

After consulting the social partners, the Commission proposed to modify the existing arrangements for the organisation of working time, reconciling various elements such

as the protection of workers' health and safety and the flexibility to be given to companies and Member States in the management of working time.

On the subject of equal opportunities for women and men, the Commission adopted an action programme to promote organisations active in this field, designed to ensure that the existing operations would continue until the next financial perspective came into play. It also proposed recasting the existing legislation, while the Council reached a political agreement on a directive relating to equal treatment in the supply of and access to goods and services.

Furthermore, the Commission adopted two communications setting out its thoughts on the functioning, results and future of the European social dialogue, and on the social dimension of globalisation.

Lastly, in connection with the next financial perspective and the role of the social policy agenda, the Commission proposed creating a new instrument in the form of an integrated programme for employment and social solidarity (Progress), covering the period 2007–13.

Key points

- *With effect from 1 June 2004, a European health insurance card is being gradually introduced for the benefit of European citizens travelling for personal or professional reasons; this card is designed to simplify the procedure for receiving medical treatment during a temporary stay in a Member State. It will replace the various forms previously used (e.g. form E111 for tourists and form E110 for persons involved in international road transport). The authorities of the Member States concerned are solely responsible for producing and distributing the European card.*
- *The European Council gave its support to the creation of a European Gender Institute.*
- *The Commission put forward proposals for streamlining and targeting spending on the Union's social and employment policies. As part of the financial perspective 2007–13 package, the new European Social Fund (2007–13) will link funding with policies aimed at boosting employment and strengthening economic and social cohesion through the European employment strategy. With less red tape, simpler rules and more decentralisation to the Member States, the fund will be both easier to manage and better equipped to tackle the new challenges arising from enlargement, the ageing population and globalisation. It will be complemented by a new programme that will streamline funding for other actions supporting the Commission's policy in the field of employment and social affairs.*
- *The Commission proposed that certain key aspects of the directive on working time should be updated, with a balanced package of interrelated measures preserving the directive's primary objective — the health and safety of workers — while responding to the needs of a modern European economy.*

Chapter V

Internal market

In order to gain maximum benefit from the internal market, the Commission recommended that the Member States concentrate their efforts on two fronts: working together in partnership on the main legislative issues that are still outstanding, such as the Community patent, and taking measures to deal with the underlying reasons for the incorrect or late transposition of Community directives into national law.

In the field of services, the Commission proposed drawing up a legal framework for legislation to eliminate the obstacles, already banned by the Treaty, to the freedom of establishment and the free movement of services between Member States, in the interests of administrative simplification and to guarantee the legal certainty required for exercising these freedoms.

In the field of financial services, the final measures under the action plan for financial services were presented by the Commission. These include a recasting of the directives relating to the taking up and pursuit of the business of credit institutions and the capital adequacy of investment firms and credit institutions. The Commission also advocated a new action plan (for 2004–07) to prevent fraud on non-cash means of payment.

In the area of corporate governance, following the emergence of financial scandals such as the fraudulent bankruptcy of the Italian company Parmalat, the Commission put forward a strategy to prevent corporate malpractice. It also submitted a proposal for a new directive on the statutory audit in the European Union, and proposals aimed at modernising certain directives currently in force, primarily to ensure greater transparency in accounting operations. In addition, the Commission asked the Member States to reinforce the presence and role of independent members on listed companies' supervisory or management boards and to ensure that shareholders are better informed and able to exercise adequate control over matters of directors' remuneration. For their part, the European Parliament and the Council established minimum guidelines for the conduct of takeover bids.

In the area of intellectual and industrial property, the European Parliament and the Council adopted a directive which obliges Member States to apply effective and

dissuasive measures against those engaged in counterfeiting and piracy, whilst creating a level playing field for right holders in the European Union. The Council also adopted a regulation aimed at improving the effectiveness of the mechanism set up in 1993 concerning the Community trademark system. For its part, the Commission presented its thoughts on a range of issues related to the management of copyright and related rights. To avoid distortions of competition and prevent the re-import to EU territory of pharmaceuticals manufactured under compulsory licences, it proposed the adoption of a regulation to harmonise the conditions for granting such licences.

With regard to the use of personal data, the Council signed an agreement with the United States which allows air carriers to transfer air passenger data to the US customs authorities. This agreement contains clauses requiring the US authorities to respect the principles laid down in the 1995 Community directive on personal data protection and to use the data in a manner which does not discriminate against European passengers.

In the field of public procurement, the European Parliament and the Council adopted two directives on the coordination of contract award procedures for supply, service and works contracts in general and for the water, energy, transport and postal service sectors in particular. In publishing a Green Paper on public-private partnerships and Community law on public contracts, the Commission sought to launch a debate to determine whether Community action should be taken in this field. It also published a Green Paper to consult all partners concerned on whether to adapt the European regulatory framework in the defence equipment sector. This initiative contributes to the gradual process, which began in 2003, of creating a European defence equipment market that is more transparent and open between Member States.

In the area of taxation, the efforts made to ensure better cooperation at Community level continued in 2004. Thus, with regard to excise duties, administrative cooperation was stepped up following a Commission proposal to introduce a new legislative framework. New provisions were also adopted to promote mutual administrative assistance, with the aim of speeding up the flow of information between the tax authorities of Member States and enabling the latter to coordinate their investigative action against cross-border tax fraud, particularly through direct cross-border contacts. As emphasised in a Commission report, significant progress was made in the fight against fraud through administrative cooperation, especially in the specific area of value added tax (VAT).

With regard to VAT, successive amendments were made to the basic directive, particularly to simplify and modernise the exemption procedures or to take account of some of the implications of enlargement. On a more general note, the Commission proposed that this text be recast so as to make it clear and comprehensible while ensuring that it reflects the legislation currently in force. It also proposed specific measures aimed at easing the burden of compliance for persons subject to VAT who have no establishment in the Member State in which they carry out their activities.

This same desire for clarification also lay behind the Commission's proposal to amend the existing rules on intra-Community movements of excisable products.

With regard to relations with the public and with economic operators, the Commission improved its online interactive services aimed at helping citizens exercise their rights within the internal market. To this end, it launched new Internet sites for a dialogue with citizens and for settling disputes (Solvit), extended the Citizens' Signpost Service to the new Member States and provided further opportunities for public consultations on the 'Your voice in Europe' portal.

Key points

- *In adopting a directive on markets in financial instruments, the European Parliament and the Council gave investment firms an effective 'single passport', allowing them to operate throughout the EU on the basis of authorisation in their home Member State. A 'transparency' directive was also adopted with the aim of enhancing investor protection and improving the efficiency, openness and integrity of European capital markets.*
- *The Commission presented a proposal for a directive to create a real internal market in services by establishing a legal framework to facilitate the free movement of services and the freedom of establishment. The services covered by the proposal account for around 50 % of all economic activity in the EU. By encouraging cross-border economic activity and boosting competition, the proposed directive would increase choice, improve quality and bring down prices for consumers and also for businesses that use services.*
- *The new directives on public procurement adopted this year aim to make the contract award procedure more transparent, combat corruption, clarify the criteria for selecting tenderers and facilitate electronic procurement. A study published by the Commission shows that public procurement accounts for over 16 % of the Union's GDP and that the existing directives in this field have increased cross-border competition and reduced the prices paid by public authorities for goods and services by around 30 %.*
- *International agreements have been signed with Andorra, Liechtenstein, Monaco, San Marino and Switzerland on the taxation of income from savings. These form part of a new cooperation framework in the field of direct taxation which includes not only the directive adopted in 2003 on taxing such income within the European Union, but also agreements with Member States' dependent and associated territories. All these instruments will enter into force simultaneously from 1 July 2005.*
- *In the field of value added tax (VAT), the Commission has, in the interests of simplification, presented a proposal for a directive aimed at providing for a 'one-stop-shop' system whereby taxable persons could fulfil all their VAT obligations for EU-wide activities in the Member State in which they are established.*



Chapter VI

Competition

The Commission's efforts to set in place, in time for enlargement, the detailed components of a modernised regulatory framework for antitrust and merger control met with a successful outcome. Two sets of measures contributing to the modernisation drive entered into force on 1 May: the Commission adopted arrangements for more widely decentralised implementation of the competition rules based on Articles 81 and 82 of the EC Treaty, while the Council adopted the new merger regulation, the practical implementing arrangements for which were laid down in a Commission regulation. This new regulatory framework facilitates the referral of cases between the Commission and the competent national authorities with a view to optimum case allocation, in particular at the request of the firms concerned and before formal notification of a transaction. Changes have also been made to the simplified procedure for vetting certain mergers and to the deadlines laid down, among other things, for the submission of commitments by firms at different stages in the procedure.

As part of this process, and in order to draw the necessary conclusions in terms of strategy, the Commission presented a communication focusing on the merits of a proactive competition policy, which it regards as a key feature of a coherent, integrated approach to promoting competitiveness. It clarified and simplified, by means of a new block exemption regulation, the scope of the rules on technology transfer agreements; and brought out a White Paper exploring the arguments for and against maintaining or revising the current rules governing competition in maritime transport.

In its role as the Community competition authority, the Commission continued to combat illegal hardcore cartels by issuing a number of individual prohibition decisions. All these decisions, which relate to widely varying areas of the economy, imposed fines on the firms responsible for such serious infringements of the basic competition rules. It also stepped up its action against unilateral abusive behaviour by enterprises enjoying dominant positions. Examples include a decision on unfair practices in the financial services sector and above all the decision in the Microsoft case, by which the Commission wound up its in-depth investigation of the markets in work group server

operating systems and media players by imposing a large fine on the company and requiring it to take corrective measures.

In parallel with the reform of the relevant legislative framework, the Commission examined many individual merger cases, several of which required a detailed investigation. At the end of the year, it acted in the energy sector by banning a transaction planned by the incumbent electricity and gas operators in Portugal in order to prevent effective market liberalisation being pre-empted through the strengthening of dominant positions.

In the State aid field, the Commission adopted an instrument aimed at facilitating the preparation of State aid notifications by the Member States, proposed new rules to increase legal certainty for services of general economic interest, and approved new guidelines on State aid for rescuing and restructuring firms in difficulty. These measures form part of a more general drive to reform the Community system for monitoring State aid, aimed at focusing checks on aid that is most likely to have adverse effects on competition. The Commission also adopted a large number of individual decisions concerning, among other things, telecommunications operators and ailing banks. It continued to attach priority to the recovery of illegal aid and kept up its efforts to ensure that its decisions requiring aid to be recovered are acted on by the Member States.

As far as international cooperation in the competition field is concerned, the Commission maintained its fruitful bilateral cooperation on hardcore cartels and worldwide mergers with its traditional partners, in particular the United States, and strengthened its links with other major EU trading partners such as China and South Korea. The Community furthermore continued to participate actively in various forums for multilateral cooperation, such as the International Competition Network (ICN) and the Organisation for Economic Cooperation and Development (OECD).

Key points

- *The most comprehensive antitrust reform ever undertaken since 1962 came into force on 1 May.*
- *The competition rules established by the European Union have now become the benchmark, facilitating the running of businesses. Cumbersome notification procedures have thus been abandoned, enabling the Commission to concentrate on combating serious infringements of Community law. Complainants, including consumer associations, will in future have an enhanced role to play in enabling the Commission to open investigations.*
- *New rules on technology transfer agreements (patents, know-how and software copyright) entered into force on 1 May. They offer businesses more flexibility and facilitate greater convergence between the policies pursued in this area by the EU and the United States.*



COMPETITION

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- *The Commission approved new guidelines on State aid for rescuing and restructuring firms in difficulty. Rescue or restructuring aid may be justified by social or regional policy considerations, by the need to take into account the beneficial role played by small and medium-sized enterprises in the economy or in cases where the demise of an ailing firm could lead to a monopoly, and such aid must be limited to the minimum required to restore viability without distorting competition.*





Chapter VII

Enterprise

In 2004, European Union enterprise policy remained focused on enhancing competitiveness as a determining factor for growth. The European Council reiterated this at its meeting in March and highlighted four priorities in this area: the completion of the internal market, improving legislation, increased efforts in research, and strengthening the effectiveness of the institutional framework.

It is in this context that the Commission built on the guidelines sketched out in 2002 for industrial policy in an enlarged Europe. Taking the view that the European Union is faced more with a process of structural change than a general trend towards deindustrialisation, it recommended taking action in three areas to support these changes, taking advantage of the opportunities offered by enlargement: improving the regulatory environment for business, better synergy between different Community policies, and extending industrial policy to new sectors, such as the motor-vehicle sector. It also started work on relaunching and refocusing its policy on innovation.

The Commission has also stressed the importance of European standardisation in the context of Community policies and legislation, particularly in order to strengthen competitiveness. The Council, for its part, is aware of the burden on enterprises which European legislation and regulations can impose and has asked the Commission to draw up a methodological approach to assess the extent of this burden.

The introduction of a better administrative and regulatory framework for small and medium-sized businesses was also one of the strategic objectives of an action plan presented by the Commission to promote entrepreneurship. This initiative also aims to fuel entrepreneurial mindsets, encourage as many people as possible to become entrepreneurs, gear entrepreneurs for growth and competitiveness and improve the flow of finance. Highlighting the contribution cooperatives can make towards achieving the objectives of the Lisbon strategy, the Commission also proposed a series of actions aimed at improving the visibility of this sector in Europe, building on the first vital step taken in 2003 with the adoption of a statute for a European cooperative society.

At sectoral level, much legislative progress was made in 2004: codification of good laboratory practice; modernisation of the legislation on detergents to make it more ecological; harmonisation of the control of certain drug precursors; updating of the legislation on pharmaceuticals, including the creation of a European Medicines Agency; extending the scope of the regulations on the construction of speed limitation devices to incorporate environmental and safety concerns. With regard to textiles and clothing, on the basis of the recommendations of a high-level group, the Commission proposed a series of actions to stimulate the competitiveness of European industry in this sector. Legislative work also continued on the registration, evaluation and authorisation of chemicals (REACH).

With regard to trans-European telecommunications networks, the European Parliament and the Council, mindful of the encouraging results emerging from the IDA programmes for electronic data interchange between administrations, established a new programme, called IDABC, to cover the period 2005–09. This instrument is intended to support the interoperable provision of pan-European e-government services to public departments, businesses and citizens.

Key points

- *On 11 February, the Commission proposed an action plan to fuel entrepreneurial mindsets and encourage more people to become entrepreneurs.*
- *At sectoral level, the European Parliament and the Council established harmonised measures to control and monitor certain drug precursors.*

Chapter VIII

Research and technology

In 2004, new pieces were put in place in the construction of a genuine European research area (ERA) towards which the European Council called for progress to be accelerated. The progress made was of a conceptual and operational nature.

On the conceptual front, the Treaty establishing a Constitution for Europe confirms the existence of the ERA and provides for the Union to have competence in this connection.

The debate on the future guidelines for European research policy and activities was launched, and the Commission called for research funding to be stepped up to correspond to a rate of investment in this area of 3 % of GDP in 2010 and stimulate growth and competitiveness.

The Commission submitted several communications concerning the content of the ERA and the resources to be placed at its disposal. In particular, in a communication on science and technology as the key to Europe's future, which is part of the Lisbon strategy and marks the beginning of the preparations for the seventh framework programme for the period 2006–10, the Commission called for an increase in research funding in Europe. To boost the impact of EU activities, six main objectives were identified: creating centres of excellence through inter-laboratory collaboration, launching major European technological initiatives, boosting basic research, making Europe more attractive to the best researchers, developing research infrastructure of European interest, and strengthening national research programmes. The concern to place research at the service of security also prompted the Commission to set out the main aspects of action in this field, in particular the fight against terrorism and improved crisis management.

On the operational front, the sixth framework programme, the key instrument of Community research policy, which was launched in 2006, has now reached cruising speed. As in 2003, it resulted in the launching of over 100 calls for proposals for projects in which the new Member States and third countries are also participating. In the first six months of 2004, over 500 contracts were signed with some 4 400 participants. The

Commission also encouraged the Member States and the associated States to coordinate their efforts more effectively, whether through Eranet actions or through the European Strategy Forum on Research Infrastructure (ESFRI).

In addition, through the sixth framework programme, the Commission increased its support for research into life sciences and biotechnology by 20 %. Nearly EUR 3 billion are assigned to research into genomics, biotechnology, health and food.

In order to contribute to the establishment of an independent European capability in the field of satellite observation and remote sensing, the Commission submitted a plan for the implementation for the second phase (2004–08) of the global monitoring for environment and security (GMES) initiative. This new phase will give rise to close collaboration, in particular with the European Space Agency, on the basis of the cooperation agreement signed in 2003 and concluded with that organisation in 2004. More generally, the action plan for the implementation of a European space policy which the Commission submitted in the 2003 White Paper was favourably received by the other institutions. The draft Constitution for Europe recognises the specific role of the EU in the sector, in which, in addition, the Galileo satellite radionavigation programme has a strategic role to play.

In the nuclear sector, the Council adopted a supplementary research programme with a budget of EUR 30 million for three years for the operation of the European high-flux reactor. The Joint Research Centre (JRC) was given responsibility for implementing the programme. The Commission submitted a programme integrating the decommissioning of all JRC nuclear installations and the processing of existing waste and waste resulting from decommissioning.

On the international front, the European Council reaffirmed its unanimous support for the European candidate site for the international thermonuclear experimental reactor (ITER). Bilateral scientific and technological cooperation agreements were signed with Brazil, Egypt, Israel and Mexico with a view to their association with the activities of the sixth framework programme. A cooperation agreement with the United States was also renewed for a period of five years.

Key points

- *With its communication entitled 'Science and technology, the key to Europe's future' adopted in June, the Commission set out guidelines for future European research policy with a view to making a significant contribution to the EU objectives concerning growth, business competitiveness, employment and security.*
- *The preparatory action aimed at enhancing the potential of European industry with regard to security research (2004–06) encourages the development of a security research agenda to fill the vacuum between civilian research supported by the*

Community framework programmes and national and intergovernmental research initiatives.

- *The implementation of the Commission's action plan on investing in research adopted in 2003 with a view to increasing investment in research and development to 3 % of GDP in 2010 continued in 2004. The activities in question include the establishment of technology platforms and the development of research as a major strand of the future Structural Funds.*
- *The Commission adopted the communication entitled 'Towards a European strategy for nanotechnology'. Nanotechnology targets the development of atomic- and molecular-scale techniques and systems. It can be used in many areas such as health, information technology, materials sciences, industry, instrumentation, energy, security and space.*
- *ITER (international thermonuclear experimental reactor) is an example of international collaboration in the research field. This reactor will be built on the basis of an international partnership (China, South Korea, United States, Japan, Russia and the EU). ITER would make it possible to produce energy in a non-polluting way as a result of the fusion of light atoms such as hydrogen. The European institutions worked to achieve a consensus between the parties on locating the project at the European candidate site of Cadarache (France).*





Chapter IX

Information society

Putting the finishing touches to the preparatory work carried out in 2003, the European Parliament and the Council officially established the European Network and Information Security Agency in 2004.

The mid-term review of the eEurope 2005 action plan confirmed the relevance of the objectives of the eEurope initiative. Efforts therefore focused on updating and adjusting the actions and reinforcing the implementation mechanisms. To this end, the Commission proposed a series of 15 actions aimed at speeding up the implementation of the plan with regard to broadband, e-government (online public services) and e-business (electronic commerce). In a communication on the challenges for the European information society beyond 2005, it launched a policy debate on a new vision of the information society in the context of wider deployment of information and communication technologies and the objectives set by the Lisbon strategy.

Where broadband is concerned, all the new Member States have undertaken to adopt national strategies akin to those of the other Member States. Encouraging broadband access and usage in underequipped areas was one of the central themes of information society policy in 2004. A forum on the digital divide was launched in June with a view to analysing the main factors underlying this phenomenon and proposing solutions for bridging this divide.

The Commission also analysed issues concerning the deployment of mobile third-generation communications and the policy and regulatory framework necessary for the expansion of commercial and public broadband services.

In addition, the Commission put forward new initiatives on several fronts. For example, it identified a series of actions intended to supplement the privacy and electronic communications directive adopted in 2002, in order to ensure that unsolicited commercial communications by e-mail ('spam') are prevented as effectively as possible. Also, it proposed the continuation and improvement of the eContent programme, which came to an end in 2004, through the launching of a new multiannual

programme (2005–08), 'eContentplus', aimed at making digital content in Europe more accessible, usable and exploitable. In addition, the Commission formulated a proposal aimed at continuing and improving the EU programme for promoting safer use of the Internet and new online technologies. It also advocated an action plan for a European e-health area.

In the course of the first complete year in which it carried out its responsibilities under the framework directive on the regulation of electronic communications, the Commission adopted decisions on 29 draft measures from 11 Member States, regarding them as being compatible with Community law, and exercised its veto over four draft measures.

In addition, the Commission assessed the state of the electronic communication services market and the extent and effectiveness of the implementation by the Member States of the new regulatory framework for electronic communications. It concluded that the market outlook is positive and that competition is intensifying. It also stressed the real progress made in implementing the regulatory framework in most Member States.

In the international arena, following on from the first phase in 2003, the EU made preparations for the second phase of the United Nations World Summit on the Information Society to be held in 2005.

Key points

- *Threats to the security of communication networks and information systems (accidents, computer attacks, etc.) can have immediate repercussions for the economy and the life of citizens. Consequently, the EU recently set up a European Network and Information Security Agency. The agency will become a centre of expertise on cybersecurity-related issues. It will provide assistance to the authorities in the Member States, and in particular their computer emergency response teams. The agency will therefore have a crucial role to play in the security of the digital economy in Europe.*
- *The Commission proposed the adoption of 'Safer Internet plus', a new programme intended to make the Internet safer for children, their parents and teachers. This programme, with a budget of EUR 50 million for the period 2005–08, is aimed at combating illegal content, tackling unwanted and harmful content (including spam) promoting a safer environment, and raising awareness of the problems involved.*
- *In a communication adopted in June, the Commission outlined the challenges that must be addressed if Europe is to exploit the social and economic benefits of mobile broadband services. These services will combine the benefits of broadband with mobility and deliver significant productivity gains for Europe. Their development will necessitate accompanying measures such as a strategic research programme, a guarantee of interoperability across networks, and the removal of barriers to the deployment of third-generation networks.*

Chapter X

Economic and social cohesion

The year 2004 was a turning point in EU economic and social cohesion policy.

Firstly, continuing the efforts which had already been agreed as part of the pre-accession strategy, the 2004–06 economic and social development programmes for the new Member States which joined the Union on 1 May were formally adopted, and a start was made on implementing them. These countries benefited from allocations to finance around 30 projects in the course of 2004.

Secondly, the foundations for future EU cohesion policy were laid: in its third report on economic and social cohesion, as well as providing an overview of achievements in the 2001–03 period, the Commission outlined a new structure for EU cohesion policy after 2006, in conjunction with its proposals relating to the financial perspective for 2007–13. On the basis of more targeted assistance, future cohesion policy should, according to the Commission, respond to three key priorities in an enlarged Union: supporting growth and job creation in the least-developed Member States and regions, anticipating and encouraging change in the field of regional competitiveness and employment, and encouraging the harmonious and balanced development of European Union territory. The Commission also recommended a number of reforms as regards the implementation of the future cohesion policy such as more strategic programming, decentralisation and simplification of the management system.

As a follow-up to this first outline, the Commission also proposed a new series of regulations intended to provide a framework for economic and social cohesion policy beyond 2006, with a view to improving consistency, complementarity and efficiency. Apart from new general provisions on the Structural Funds, the proposals relate more specifically to the European Social Fund, the Cohesion Fund and the European Regional Development Fund, and the creation of a new instrument, the European Grouping of Cross-border Cooperation (EGCC).

Thirdly, in response to a request by the European Council, the Commission analysed the special characteristics of the outermost regions and set out the main features of a stronger partnership for those regions.

Finally, hard on the heels of the European Council, in view of the current difficulties in the Northern Ireland peace process, the Commission proposed aligning measures under the Peace programme and the International Fund for Ireland with those under the Structural Fund programmes which will end in 2006.

Key points

- *As part of the financial perspective 2007–13 package, on 14 July the Commission adopted five proposals for new regulations updating the Structural Funds and instruments. Most of the available resources are to be devoted to the least-developed Member States and regions. The Structural Funds and instruments aim to improve the conditions for growth of the EU economy by means of measures centring on three new objectives for the future: convergence, competitiveness and cooperation. The three main instruments remain:*
 - *the European Regional Development Fund (ERDF), which promotes investment and helps reduce regional imbalances between the Union's regions;*
 - *the European Social Fund (ESF), which supports policies and priorities aimed at creating more and better jobs;*
 - *the Cohesion Fund, which contributes to assistance in the field of the environment and trans-European transport networks in Member States with a gross national income of less than 90 % of the Community average.*
- *The Commission is also proposing a new instrument, the European Grouping of Cross-border Cooperation (EGCC), to implement programmes on the basis of an agreement between the national, regional, local and other public authorities in the participating Member States.*

Chapter XI

Agriculture and rural development

The changes introduced by the fundamental reform of the common agricultural policy (CAP) in 2003 continued in 2004, with the adoption of a number of implementing regulations and the Commission providing the Member States with assistance to put the reform into practice.

The scope of the CAP reform was also widened:

- firstly, the Council extended it to include the 10 new Member States, and the Accession Treaty was adjusted accordingly;
- secondly, the principle of decoupling aid from production introduced by the reform was extended to include cotton, hops, olive oil and tobacco. The Commission also laid the foundations for a reform of the sugar sector to bring it into line with the objectives of the review of the CAP.

Concerns about product quality were met by initiatives and specific action. For example, on the basis of a study of the period 2000–03, the Commission proposed adjustments to improve the process of information and promotion for agricultural products. Based on another report on the application of the provisions on beef traceability and labelling, it put forward recommendations to improve their application, including introducing the possibility of labelling Community origin instead of national origin.

The Commission also presented a European action plan for organic food and farming, comprising 21 concrete measures. This approach was supported by the Council. The Council also adopted a regulation strengthening Community-level legal protection for organic farming methods and established a Community programme on the conservation, collection and utilisation of genetic resources in agriculture.

At international level, the Union requested the opening of tariff negotiations on banana imports in the World Trade Organisation.

In conjunction with the EU's financial perspective for 2007–13, the Commission proposed the adoption of a new basic regulation on the financing of the CAP and recommended setting up two new funds, reflecting the two pillars of the CAP: a European Agricultural Guarantee Fund (EAGF) and a European Agricultural Fund for Rural Development (EAFRD).

Key points

- *The Commission proposed the adoption of provisions to strengthen rural development policy and simplify its implementation. The proposed reform centres on three basic objectives:*
 - *strengthening the competitiveness of the agricultural and forestry sector;*
 - *protecting the environment and countryside;*
 - *improving the quality of life in rural areas.*
- *One of the main features of the new system, as part of the financial perspective 2007–13 package, is the introduction of one single instrument for financing and programming rural development policy: the European Agricultural Fund for Rural Development (EAFRD). It will be implemented under a more bottom-up approach: the Member States, regions and action groups will have a greater say in the design of rural development programmes to meet local needs.*
- *The Commission adopted a 'European action plan for organic food and farming' comprising 21 measures aimed at promoting the ongoing development of organic farming in the European Union. The plan comes in response to the rapid growth in the number of organic farmers and the strong demand from consumers in recent years.*

*Chapter XII***Fisheries**

In 2004, the European Union made further progress in implementing the reform of the common fisheries policy (CFP), the bulk of which was put in place in 2002 and then continued in 2003. The Council established seven Regional Advisory Councils to ensure better governance under the policy and closer involvement of the various interests in the sector in its development. For its part, the Commission proposed setting up a Community Fisheries Control Agency (CFCA) and, in connection with its 'Guidelines on the financial perspective', the Commission proposed setting up a European Fisheries Fund (EFF) to replace the existing Financial Instrument for Fisheries Guidance (FIGG).

In the daily implementation of the CFP, concern for conservation and resource management, both inside and outside the Union, continued to be the basis for a large part of the Union's activities.

Internally, the Council laid down measures to reduce incidental catches of cetaceans and to conserve certain stocks of highly migratory species. It also established plans for the recovery of cod and northern hake stocks. As regards the monitoring of fishing activities, the Council extended the current arrangements for providing assistance to the Member States in establishing national systems until 2006, the deadline for the establishment of a Community inspection system. It also several times amended the regulation fixing for 2004 the fishing opportunities for certain fish stocks. The Commission proposed improving the monitoring of industrial fishing in the Union.

Externally, the Union continued its policy of participating in the work of international and regional fisheries organisations. In addition, regulations were adopted to take account of the recommendations of these organisations, for example on the conservation of certain stocks of highly migratory species, in Community legislation. The Union also joined several of these organisations, such as the Inter-American Tropical Tuna Commission.

Bilateral fisheries agreements were concluded or renewed with a number of third countries (South Africa, Cape Verde, Comoros, Côte d'Ivoire, Guinea, Guinea-Bissau,

Madagascar and Mauritius), while negotiating directives were adopted with a view to concluding an agreement with Libya. The Council also concluded the protocol on the mid-term review of the fourth protocol on fisheries with Greenland.

In response to environmental concerns, the Council prohibited the use of bottom trawls and similar towed gear in a number of areas in which coral reefs are particularly vulnerable.

As regards the structural aspects of policy, the Council laid down new detailed rules and arrangements regarding Community structural assistance in the fisheries sector, in particular to ensure the sustainable development of European aquaculture. In addition, special arrangements for the management of the fishing fleets of the outermost regions were introduced to take account of their structural, social and economic situation.

Key points

- *As part of the financial perspective 2007–13 package, the Commission presented a proposal for a European Fisheries Fund (EFF) to facilitate the implementation of measures to ensure sustainable fishing and the diversification of economic activities in fishing areas. This fund will replace the existing Financial Instrument for Fisheries Guidance (FIFG).*
- *Set up by the Council in 2004, the Regional Advisory Councils will ensure closer involvement of the various interests in the fisheries sector in its development. So far, seven councils have been set up. They cover, among other things, the Baltic Sea, the Mediterranean and the North Sea, pelagic stocks and the deep-sea fishing fleet.*
- *The Commission adopted a communication setting out the means by which the Community can encourage the use of more environmentally friendly fishing methods. The three main objectives are to:*
 - *reduce fishing effort to viable levels and maintain it at those levels;*
 - *optimise catches of target species and reduce by-catches to a minimum;*
 - *reduce the impact of fishing activities on habitats to a minimum.*



Chapter XIII

Area of freedom, security and justice

On 5 November, acting on the basis of the Commission's progress report on implementation of the 1999 Tampere programme, which set out initial guidelines for action, the European Council adopted a new multiannual programme, 'the Hague programme', which spells out the priorities for future action and reflects the ambitions expressed in this connection in the Treaty establishing a Constitution for Europe.

The rights and freedoms recognised throughout the Union were enshrined in this Treaty with the incorporation of the Charter of Fundamental Rights of the European Union. Adoption of the directive consolidating the rights of Union citizens and members of their families to move and reside freely in the territory of the Member States and the decision to convert the European Monitoring Centre on Racism and Xenophobia into a Fundamental Rights Agency give tangible expression to the Union's concern to make it easier to exercise these rights.

Progress was made in developing a common policy on asylum, immigration and the management of external borders. Significant advances included the adoption of a common definition of refugee status and the laying down of minimum conditions for third-country nationals to qualify for this status. The first stage in the establishment of a common asylum policy is due to be completed shortly with the adoption of the directive on asylum procedures. Moreover, the European Refugee Fund, whose remit has been extended to cover the period 2005 to 2010, will enable Member States to improve conditions for the reception and integration of refugees and for the voluntary return of refugees and displaced persons. Progress was also made in developing cooperation agreements and programmes on migration and asylum with non-member countries.

With regard to immigration and control of external borders, further significant advances included initiatives for facilitating the admission of third-country nationals to pursue their studies or to engage in scientific research, the renewed importance attached to integration policy for third-country nationals and the decision by the

Council to set up a European Agency for the Management of Cooperation at the External Borders. For its part, the Commission proposed establishing a Community code on the rules governing the movement of persons across borders and minimum standards to improve security with regard to passports held by Union citizens. In June, the Council adopted a resolution agreeing that the new Member States should endeavour to issue the uniform passport by 1 January 2007 at the latest.

Combating terrorism was one of the Union's main priorities in 2004. In the wake of the Madrid attacks on 11 March, the European Council adopted declarations on the fight against terrorism and expressing solidarity in the face of terrorism. Subsequently, the Council drew up a revised plan of action and the Commission proposed practical measures addressing various aspects of the issue (exchange of information, prevention of attacks, consequence management, financing of terrorism, protection of critical infrastructures). The European Council meeting on 16 and 17 December devoted a substantial part of its discussion to these matters.

In the fight against drugs, a new drugs strategy covering the period from 2005 to 2012 was adopted by the European Council. The Council also adopted a framework decision laying down minimum provisions on the constituent elements of criminal acts and penalties in this field.

The Commission launched a number of initiatives on judicial cooperation in criminal matters, including Green Papers on the approximation, mutual recognition and enforcement of criminal sanctions and on the mutual recognition of pre-trial supervision measures, as well as key legislative proposals on procedural rights and the exchange of information taken from criminal records. The Council also adopted a directive on compensation to crime victims.

In the area of police cooperation, the Commission proposed conferring on the European Police College the status of a body of the European Union.

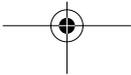
In the area of civil law, major progress was made on establishing a judicial area for civil and commercial matters with the creation of a European enforcement order for uncontested claims and Commission initiatives to establish a European order for payment procedure and to promote mediation.

Key points

- *On 5 November, the European Council adopted a framework programme for 2005–09, to be known as 'the Hague programme', to enhance freedom, security and justice in the European Union. The new programme follows on from the Tampere programme established in 1999 and covers, among other things, policies on fundamental rights and citizenship, asylum and immigration, integration, border management, the fight against terrorism and organised crime, judicial cooperation in civil and criminal matters, and police cooperation. The Commission was called on to draw up an action*

plan in 2005 spelling out the objectives defined in the Hague programme and to present an annual 'scoreboard' indicating the state of play in implementation by the Member States of measures adopted by the Union.

- *On 29 April, the Council adopted a directive establishing minimum standards for the qualification and status of third-country nationals as refugees. It also reached agreement on the directive on minimum standards on procedures in Member States for granting and withdrawing refugee status. Adoption of this directive shortly will complete the first phase of the common European asylum system. The next phase, as proposed by the Commission, provides for the introduction of a single procedure and a uniform status valid throughout the Union for asylum-seekers.*
- *On 29 April, the Council adopted a directive on compensation to crime victims providing for fair and adequate compensation to be paid by the competent authority of the Member State on whose territory the crime was committed. These arrangements should be in place in all the Member States by 1 July 2005.*
- *On 28 April, following on from the Green Paper on procedural safeguards, the Commission presented a proposal for common minimum standards as regards certain procedural rights, including entitlement to legal assistance and access to interpretation and translation services.*





Chapter XIV

Education and culture

The year 2004, which saw the staging in Athens of the first Olympic Games of the 21st century on European soil, was the European Year of Education through Sport, symbolising the Union's strong commitment to combating all forms of discrimination in the widest possible way, with emphasis on the value of education.

In general, the Commission's desire to maintain this impetus is evident from its efforts to promote European culture and diversity in areas where citizens can be involved in the process of integration, such as youth, culture, audiovisual aspects and civic participation.

More specifically, as part of its preparation for the 2007–13 financial perspective, the Commission proposed a series of new programmes or instruments dealing with various aspects of education and culture:

- a programme for mobility and cooperation in the field of lifelong learning, merging the current Socrates, Leonardo da Vinci and e-learning programmes;
- a new 'Youth in action' instrument;
- a 'Culture 2007' programme aimed at boosting transnational mobility for people working in the cultural sector, encouraging transnational circulation of artistic and cultural works, and enhancing intercultural dialogue;
- a single integrated 'MEDIA 2007' programme to replace the MEDIA Training and MEDIA Plus programmes in the audiovisual sector.

The European Parliament and the Council extended the duration of the 'Culture 2000', MEDIA Plus and MEDIA Training programmes to 2007. They also adopted multiannual action programmes (2004–06) for providing financial support to bodies active at European level in the fields of youth, citizenship, culture and education/training.

On the basis of the Commission's communication of November 2003, the first joint report by the Council and the Commission on the implementation of the Lisbon strategy in the

fields of education and training was adopted by the Council on 26 February and forwarded to the spring European Council.

Building on the positive response to its resolution of November 2002 and the Copenhagen Declaration on enhanced European cooperation in vocational education and training, the Council drew up conclusions in 2004 concerning the validation of non-formal and informal learning, and quality assurance in the field of vocational training, and also adopted a resolution on guidance throughout life. A new ministerial conference, to which the social partners were invited, took place in Maastricht on 14 December, resulting in consolidation of the priorities set out in the Copenhagen Declaration.

The Commission carried out a review of the action taken since 2002 within the framework of European cooperation in the youth field, stemming from the 2001 White Paper on this subject. The Commission also proposed setting common objectives for voluntary activities of young people and for a greater understanding and knowledge of youth.

With a view to making the European Centre for the Development of Vocational Training (Cedefop) more effective and guaranteeing the continuity of its activities in the context of an enlarged European Union, the Council amended the regulation establishing the centre in order to streamline its structure and modus operandi. Moreover, the European Parliament and the Council extended the Community's participation in the European Audiovisual Observatory until the end of 2006.

Consolidating the approach which it outlined in 2001, the Commission made recommendations for certain legal aspects relating to cinematographic and audiovisual works. It also proposed that national frameworks be developed with a view to achieving an effective level of protection of minors and human dignity in respect of audiovisual and information services. It also put forward a recommendation on cinematographic heritage and the competitiveness of related industrial activities. Moreover, it clarified the interpretation of the rules of the directive on television advertising and tele-shopping, as well as their application to new technologies and forms of advertising.

In November, the Council adopted negotiating directives authorising the Commission to participate, within the framework of Unesco, in negotiations on a convention for protecting the diversity of cultural content and artistic expression.

Furthermore, the Commission decided to set up an executive agency responsible for managing certain strands of Community programmes in the education, audiovisual and culture spheres.

Key points

- *The first joint report by the Council and the Commission on the implementation of the Lisbon strategy in the fields of education and training was adopted by the Council in*

February and forwarded to the spring European Council. This report ('Education and training 2010') underlined the need for reform as a matter of priority with a view to attaining the Lisbon objectives and pinpointed three areas for action: investment in human resources; introduction of comprehensive lifelong learning strategies; and development of a European framework for qualifications and skills (Europass). A progress report should be made to the European Council every two years.

- *As part of the financial perspective 2007–13 package, the Commission adopted proposals for a new generation of programmes in the education, youth, culture and audiovisual fields, designed to succeed the current programmes and to contribute to attaining the Lisbon objective of making Europe the most competitive knowledge-based economy by 2010. The proposals concern:*
 - *an action programme in the field of lifelong learning, which will help to improve the quality of education and training systems. The programme will comprise four sectoral elements focusing on school education (Comenius), higher education (Erasmus), vocational training (Leonardo da Vinci) and adult education (Grundtvig);*
 - *a 'Youth in action' programme, seeking to develop among young people aged between 13 and 30 a sense of personal responsibility, initiative, solidarity, citizenship and active involvement at local, national and European levels. This programme will also be accessible to third countries;*
 - *a 'MEDIA 2007' programme, symbolising the Union's strong commitment to the audiovisual sector. Community action will target both the pre-production phase (e.g. development of projects and training of professionals) and the post-production phase (support for the promotion and distribution of audiovisual works);*
 - *a 'Culture 2007' programme, taking over from 'Culture 2000', aiming primarily to boost the transnational mobility of both artists and works, and to encourage intercultural dialogue, in tandem with action taken by the Member States.*





Chapter XV

Environment

While continuing to ensure the integration of the environmental dimension into all its policies, the EU devoted special attention in 2004 to the implementation of its international commitments concerning the environment.

This approach relates primarily to the United Nations Framework Convention on Climate Change and the Kyoto Protocol. Following on from the Community implementing provisions adopted in 2003, mechanisms were established this year for monitoring greenhouse gas emissions (including an assessment of the national plans for the allocation of emission quotas) and for greenhouse gas emission allowance trading between Member States. Following ratification by Russia, which was strongly supported by the EU, the Kyoto Protocol should finally enter into force in February 2005.

In addition, legislative adjustments were made and legislative proposals were submitted concerning the application of various international agreements on persistent organic pollutants and the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters.

The Community also acceded to the Protocol to the Barcelona Convention for the Protection of the Mediterranean Sea against Pollution and the Stockholm Convention concerning the regime applicable to certain polluting substances.

Lastly, the EU reaffirmed its commitment to achieving the goals set in 2002 at the Johannesburg World Summit on Sustainable Development.

An important step was taken in the field of environmental law with the adoption of a directive on environmental liability. Where the management of resources is concerned, new legislation was adopted concerning the recycling of certain types of waste, such as packaging. Where the protection of resources is concerned, attention focused on the preservation of the quality of groundwater and bathing water. Legislative work also continued concerning the registration, evaluation, authorisation and restriction of chemicals (REACH).

For its part, the Commission continued its efforts to develop a European environment and health strategy, and submitted a multiannual action plan in this connection. Sustainable development concerns also prompted it to lay the foundations for a thematic strategy for the urban environment.

On the financial front, growing environmental concerns and the proliferation of environmental protection instruments led the Commission to confirm new avenues of approach. Accordingly, it advocated integrating the funding of the Natura 2000 network into Community policies through the existing funds rather than setting up a stand-alone fund for this purpose. It also proposed a new sole financial programme dedicated to the environment to be known as LIFE+.

Key points

- *The Commission cleared over 5 000 industrial plants to enter the CO₂ emission market from January 2005. This market, the biggest in the world, will ensure that greenhouse gas emissions in the energy and industry sectors are cut at least cost to the economy and help the EU and its Member States to meet the emission targets under the Kyoto Protocol.*
- *The Commission adopted an ambitious action plan to improve the development of environmental technologies. Many new environmental technologies have great potential to improve the environment and, at the same time, boost the competitiveness of companies. Examples of environmental technologies range from recycling systems for wastewater in industrial processes to energy-saving car engines, which allow cars to use less fuel, and soil remediation techniques.*
- *As part of the financial perspective 2007–13 package, the Commission proposed a new simplified funding programme for the environment. This new programme, called 'LIFE+' will become the EU's sole financial instrument targeting only the environment. With this new instrument, the Commission expects to push improvements ahead more rapidly for the benefit of EU citizens in priority areas such as combating climate change, protecting biodiversity, adverse environmental impacts on human health, and dealing with natural resources and waste in sustainable ways.*
- *The directive on environmental liability adopted in April puts into the practice the 'polluter pays' principle in the EU. As a result, polluters will be obliged to decontaminate polluted areas or to pay for their decontamination.*

Chapter XVI

Energy and transport

In accordance with the broad lines of the 2000 Green Paper on the security of energy supply and the 2001 White Paper on transport policy for 2010, significant progress was made towards completing the internal market in energy and transport.

A major step towards the integration of the rail transport market was taken in April with the adoption of the second railway package. This package of legislation, intended in particular to remove obstacles to cross-border services and ensure a high standard of operational safety on the railways, covers in particular: expanding infrastructure access rights to national rail freight services ('cabotage'); the definition of essential requirements for the safety systems; the establishment of the European Railway Agency to provide technical support to the work on network interoperability and safety; and the gradual extension of the scope of interoperability.

For its part, the Commission proposed new measures in the context of the third railway package. The proposals in question address the following objectives: ensuring that passengers' rights are respected more effectively; improving the quality of rail freight services; opening up international passenger transport services to greater competition; and ensuring better recognition of the professional qualifications of train drivers and crews performing safety-related tasks.

Where road transport is concerned, a decision was taken concerning a genuine European electronic road toll service which could be established as from 2006 in order to guarantee interoperability of road toll systems in the internal market and contribute to the development of infrastructure charging policies on a European scale. In an interpretative communication, the Commission also defined the concept of temporary cabotage.

In the air transport sector, a regulation was adopted to protect European airlines, to which competition rules apply, against unfair practices by subsidised third-country airlines. The European Parliament and the Council also adopted a package of regulations aimed at creating a single European sky by establishing common rules concerning air traffic management throughout the Community.

Where maritime transport is concerned, the Commission adopted a new proposal for a directive on access to the port services market. The aim of this proposal is to establish a legislative and regulatory framework for the provision of port services, improve the competitiveness of Community ports, and help to reduce their congestion and environmental pollution.

Turning to inland waterways, the Commission approved a proposal for a directive on harmonised river traffic information systems aimed at modernising inland waterway infrastructure.

Progress towards opening up the internal energy market continued. The electricity and gas directives adopted in 2003 should have been incorporated into the national legislation of all EU Member States by 1 July. Failure to communicate transposition measures prompted the Commission to send letters of formal notice to 18 Member States. In June the Council granted exemptions to Estonia and Slovenia concerning the opening-up of the electricity markets.

The efforts to deploy and organise the major trans-European energy and transport networks also continued in 2004. The Community guidelines for the development of the trans-European transport network were updated to take account of the growth in traffic expected by 2010 and the enlargement of the EU. The European Parliament and the Council increased the rate of Community aid to 20 % for certain projects. In the context of its proposals concerning the new financial perspectives, the Commission requested a budget of around EUR 20 billion for the period 2007–13 in order to complete the 30 priority projects decided upon by Parliament and the Council. To extend the trans-European transport network to countries neighbouring on the EU (the Balkans, eastern Europe and the Mediterranean), a new high-level group was asked to identify priority projects in those countries.

Where satellite radionavigation is concerned (Galileo programme), a European supervisory authority was set up with the task of ensuring, with regard to the public sector, the management of the deployment and operational phases of the Galileo programme. For its part, the Commission called for confirmation of a significant contribution from the private sector towards the funding of those phases. The Council confirmed the irrevocable transition to the programme deployment and operational phases, and its features and funding.

Considerable legislative progress was also made in the field of transport safety and security.

For example, the European Parliament and the Council adopted provisions concerning the safety of third-country aircraft using Community airports which will guarantee uniform application of checks and monitoring at European level. Where road transport is concerned, minimum safety requirements were set for tunnels in the trans-European road network. In addition, the process of the accession of the Community to

Eurocontrol was completed in 2004. For its part, the Commission proposed common rules limiting the flying time of flight crew. A number of common rules were also specified in the field of aviation safety. Community inspections in airports were activated and will now take place regularly.

A regulation on maritime security was adopted, and corresponding inspections are programmed for 2005. The Commission also submitted a proposal for a directive on enhancing port safety. Where maritime safety is concerned, the regulation establishing the European Maritime Safety Agency was amended in order to give it the legal powers and appropriate means to combat pollution caused by ships and specify its role in the fields of maritime security and the training of seafarers.

In addition, where energy is concerned, the Commission relaunched the debate on nuclear safety by adopting two proposals for directives on the safety of nuclear installations and the management of radioactive waste. It sent to the European Parliament and the Council its first report on the use of the financial resources for the decommissioning of nuclear power stations. Also, it adopted a new approach to nuclear safeguards inspections.

Concerning the security of supply, Parliament and the Council adopted a directive establishing measures to safeguard an adequate level of security of gas supply for the EU. However, in the face of persistent opposition from those institutions, the Commission decided to withdraw its proposal concerning the communitisation of oil stocks, while reserving the right to make proposals subsequently in order to defend the interests of the EU.

In connection with sustainable development, in a communication on the progress made towards the target of producing 12 % of energy from renewable energy sources in 2010, the Commission highlighted the major efforts that still need to be made by the Member States. The Community also played an active part in the preparations for and the conduct of the World Conference for Renewable Energy in Bonn. In addition, the European Parliament and the Council adopted a directive with a view to developing co-generation of heat and electricity. The Commission set up the first executive agency (the Intelligent Energy for Europe Agency) to implement a programme to promote energy savings and alternative energy sources by non-technological means.

Where intermodal transport is concerned, the Commission submitted a proposal for a regulation establishing the second Marco Polo programme, involving a substantial increase in Community financial support, to improve the environmental performance of the freight transport system.

On the external front, in order to extend the benefits of the market beyond the frontiers of the EU, the Council gave the Commission a mandate to negotiate a treaty establishing an energy community in south-east Europe.

In addition, the Commission continued the energy dialogue with Russia. An assessment set out in a communication indicates the results achieved to remove import restrictions, promote projects of common interest, and improve maritime safety in the Baltic Sea. The dialogue also enabled the negotiations on nuclear trade to continue.

The Council authorised the Commission to explore with the International Civil Aviation Organisation the possibilities for enhanced participation by the Community in the work of that organisation. The European Parliament and the Council adopted a regulation following on from the 'open skies' judgments with a view to providing a framework for bilateral negotiations between the Member States and third countries concerning international air services, taking into account Community competence concerning certain aspects. For its part, the Commission advocated the establishment of an aviation policy towards all the neighbours of the enlarged Community, and was given a mandate to negotiate agreements with Morocco and the countries of the western Balkans.

Key points

- *The signature of an agreement with the United States paved the way for the creation of a new world standard (Galileo/GPS) for civilian satellite navigation services. The two systems will provide an open, compatible and interoperable general-purpose service. An agreement was also signed with Israel, and the Commission received a mandate to negotiate agreements with India and Ukraine.*
- *In order to ensure fair and uniform competition rules in the internal market for energy and transport, the Commission devoted considerable attention to the application of Community law and in particular the examination of the conformity of measures for the transposition of directives and the compatibility of State aid. In the aviation sector, for example, the Commission decision on the aid received by Ryanair in Belgium represents a landmark. While considering that certain types of aid were illegal and could create unacceptable distortions of competition, the Commission authorised temporary development aid encouraging regional development.*
- *Users' rights are also at the heart of EU strategy. In the transport sector, in addition to reinforcing the rights provided for in the context of the third railway package, the European Parliament and the Council adopted a new regulation significantly strengthening air passengers' rights, in particular a guarantee of increased compensation and better assistance in the event of denied boarding or cancellation, and an obligation to provide assistance in the event of long flight delays.*

In addition, in the energy sector, the opening-up of the electricity and gas market which had to be incorporated into national law by 1 July establishes a legal framework imposing very strict obligations on operators to ensure that all consumers, and in particular vulnerable customers, can enjoy a universal energy supply service.

Chapter XVII

Health and consumer protection

In 2004, the European Parliament and the Council set about overhauling the rules on food hygiene across the entire food production chain. They took steps to improve the effectiveness of official controls on foodstuffs and laid down rules applying to materials intended to come into contact with food. Further progress in the legislative sphere was made in the areas of animal health (adjustment of the requirements for feed hygiene) and plant health (introduction of Community rules governing ownership of plant variety rights). In addition, the Council decided that the Community should accede to the revised European Convention for the Protection of Animals during International Transport, to the International Plant Protection Convention and to the International Treaty on Plant Genetic Resources.

On the public health front, the establishment of the European Centre for Disease Prevention and Control should make it possible to pool expertise and to strengthen the European Union's capacity to take action where necessary. In a similar vein, the Commission presented a Community preparedness and response plan for coping with an influenza pandemic. The adoption by the European Parliament and the Council of a directive setting standards of quality and safety for human tissues and cells is a step forward in the direction of harmonising legislation governing the therapeutic use of such substances. The conclusion of the World Health Organisation's Framework Convention on Tobacco Control, the first international treaty in the public health sphere, provides further evidence of the Union's commitment in this field. The Commission also presented a plan for combating AIDS, advocating an integrated approach and better coordination with the Member States and neighbouring countries.

The main achievement in terms of enhancing consumer protection in 2004 came with the adoption by the European Parliament and the Council of a regulation setting up a network of public authorities responsible for enforcing legislation to protect the interests of consumers in the event of cross-border disputes.

Key points

- *Based in Stockholm, the European Centre for Disease Prevention and Control, which will become operational in 2005, is an independent agency responsible for identifying, assessing and communicating current and emerging health threats posed by communicable diseases. In the main, its tasks involve:*
 - *epidemiological surveillance and creation of specialist laboratory networks;*
 - *provision of independent scientific opinions;*
 - *management of an early warning and response system;*
 - *scientific and technical assistance to the Member States, the Commission, other Community agencies and, where appropriate, third countries and international organisations such as the World Health Organisation;*
 - *development of surveillance procedures for identifying emerging threats to public health.*
- *The European Parliament and the Council adopted a regulation concerned with cross-border disputes, designed to create a network and a framework for mutual assistance between the competent authorities for dealing with cross-border infringements. In the context of widening cross-border trade (e.g. mail-order or Internet shopping), this instrument will help to ensure swift enforcement of the law, giving protection against rogue traders.*
- *The European Parliament and the Council adopted three regulations and a directive on food hygiene to round off the legislative review process advocated by the Commission in its White Paper on food safety presented in 2000. The main thrust of the new legislation is that every person involved in the food production chain will be responsible for the safety of their products. This will entail the application of a single, transparent hygiene policy covering all foodstuffs and all operators in the food production chain, together with instruments for managing any future crisis in the sector.*
- *The regulation governing official controls on foodstuffs and animal feed will simplify the previous haphazard and inefficient system of controls, and will make the supervisory authorities working both for the Member States and for the Commission more effective. It sets out clearly the responsibilities of the Member States and the role of the Commission's Food and Veterinary Office (FVO) in 'auditing' the Member States' performance. The regulation is intended to ensure that a harmonised approach is taken to the design and development of control systems.*

Chapter XVIII

External relations — general

In keeping with the broad outline of its external policy, the European Union made further progress this year in the security and defence spheres. Operations were launched in various regions of the world — Afghanistan, Democratic Republic of the Congo, Bosnia and Herzegovina — and an action plan for Africa was drawn up. Work started on implementing the European security strategy approved in 2003: the March European Council adopted a declaration on terrorism and a declaration of solidarity between Member States of the Union in the spirit of the draft Constitution for Europe. The June European Council endorsed an action plan on combating terrorism and called on the Council and the Commission to assess Member States' capacity for coping with the consequences of terrorist attacks; it also endorsed the EU strategy on weapons of mass destruction.

On the institutional front, Mr Javier Solana's term of office as Secretary-General of the Council and High Representative for the Common Foreign and Security Policy (CFSP) was renewed. The Council decided to appoint him to the post of EU Minister for Foreign Affairs as soon as this new office, introduced by the Constitutional Treaty, comes into force.

The Council approved a policy framework enshrining basic principles for the use of sanctions under the CFSP.

In the area of European security and defence policy (ESDP), the Council established a European Defence Agency with a mandate to improve crisis management capacity and support ESDP development. It also established a mechanism, called 'Athena', to finance EU operations with military implications and agreed a civilian crisis management action plan based on a comprehensive, integrated approach. The European Council advocated continued cooperation in military matters between the European Union, the United Nations and NATO.

In addition to the extension of the police missions in Bosnia and Herzegovina (EUPM) and the Former Yugoslav Republic of Macedonia (Proxima), this year saw the launch of the first ever 'rule of law' mission — Eujust/Themis — in Georgia, and the Eupol-Kinshasa mission in the Democratic Republic of the Congo, which will assist in the

running of the EDF-financed Integrated Police Unit (IPU). On 2 December, the multinational stabilisation force (SFOR) was succeeded by operation 'Althea', the EU's military operation in Bosnia and Herzegovina.

In the area of protection of fundamental rights in third countries, the cornerstones of which are respect for human rights and democracy, the Council laid down guidelines allowing the EU to take action when human rights' defenders are threatened. The regulation on the implementation of development cooperation measures which contribute to promoting democracy and the rule of law was renewed until 31 December 2006.

The Union monitored elections in its partner countries closely in order to promote a transparent and democratic electoral process (Belarus, Indonesia, Iraq, Libya, Ukraine, Zimbabwe), taking a firm stand on respect for democratic principles which guarantee expression of the popular will.

Regarding its external service, the Commission continued working to ensure a more efficient and cost-effective external representation by streamlining the network of delegations in third countries and international organisations. Initial high-level discussions on the future Joint External Action Service were held in July, focusing on finding a balance between the respective spheres of competence of the European institutions and the EU's external coherence.

There were major developments with regard to the European neighbourhood policy, launched in 2003 as a new dimension of the EU's external relations and aimed at the Union's neighbours to the east and south. The Council endorsed the broad thrust of guidelines laid down by the Commission, geared mainly to the conclusion of actual European neighbourhood agreements, confirming its interest in a privileged relationship with its neighbours based on shared values. The European Council in turn endorsed the Council's conclusions, noting all the Commission's proposals.

The European Union continued its policy of nuclear non-proliferation and combating weapons of mass destruction. There were four main strands to EU external action: the functioning of international institutions, including the International Criminal Court, multilateralism in crisis management, humanitarian aid, and development assistance. The promotion of political dialogue between warring parties as a peaceful way of resolving differences was another major facet of EU action to promote world peace.

On the financial front, the Commission proposed the introduction of new instruments to rationalise implementation of its external assistance (see Chapter XXI).

Key points

- *In the European security strategy adopted by the European Council in 2003, the creation of an intergovernmental defence agency was considered essential to the development of more flexible and more effective military resources. This objective was achieved*

through the establishment by the Council on 12 July of the European Defence Agency. The Brussels-based agency will have the following tasks:

- to improve the EU's defence capabilities in the field of crisis management;*
 - to promote European armaments cooperation;*
 - to strengthen the European defence industrial and technological base and create a competitive European defence equipment market, in consultation with the Commission;*
 - to promote research, in liaison with Community research activities, with a view to strengthening Europe's industrial and technological potential in the defence field.*
- *As a result of enlargement, the EU's external borders moved further to the north, east and south. Faced with this new reality, the Union laid the foundations of a 'neighbourhood policy'. With a view to designing new tools to enhance the effectiveness of Community external assistance (pre-accession aid, development aid) in this new context, the Commission proposed the introduction of a European neighbourhood and partnership instrument (ENPI). Different forms of cooperation would accordingly be encouraged in key areas, including: political, trade and economic reform; justice and home affairs; energy, transport and the environment.*
 - *The Union demonstrated a commitment to strengthening political dialogue with certain countries or groups of countries, prioritising issues such as human rights, the rule of law and respect for democracy. It has continued its action to support recognition of the International Criminal Court and the promotion of free and democratic elections (Afghanistan, Belarus, Kosovo, Ukraine), so as to promote democracy and the rule of law throughout the world. The Union's other main concern has been to encourage, by political and financial means, peaceful conflict resolution in accordance with international law.*
 - *The EU consistently maintained and reiterated its commitment to curbing arms proliferation. The June European Council approved the EU strategy on weapons of mass destruction. Through the action it conducted on many fronts, the Union demonstrated the importance it attached to the worldwide acceptance of nuclear non-proliferation.*





Chapter XIX

Common commercial policy and customs union

The World Trade Organisation (WTO) this year compiled a report on the round of talks launched at the 2001 Doha summit on strengthening the multilateral trading system. The WTO adopted a text at its July meeting in Geneva which set the parameters of the future Doha Development Agenda (DDA). The DDA is crucial to bolstering international economic growth and helping developing countries integrate into the global economy.

The EU was praised by the WTO in its seventh review of EU trade policy for playing an instrumental role in promoting the DDA round and strengthening the multilateral trading system. The WTO also commended the EU for the results of its agricultural and fishery reforms.

The government procurement agreement became the first WTO instrument to be adapted to take account of EU enlargement when it was extended to the 10 new Member States on 1 May.

This year the Community was involved in 27 disputes before the WTO: in 15 of these cases the Community was the plaintiff while in the other 12 it was the target of a complaint. These cases relate to the Community's relations with nine of its trading partners (Argentina, Australia, Brazil, Canada, India, Mexico, South Korea, Thailand and the USA).

The EU also adopted a regional approach in its trade relations. Talks continued with Mercosur on a future free trade agreement, while the EU-ASEAN trade and investment initiative was given fresh impetus. Talks on regional economic partnership agreements with the ACP countries also came on stream.

The Commission proposed new guidelines on the generalised system of preferences (GSP) for 2006-08 designed to enhance its effectiveness, in particular by simplifying the

scheme, stabilising it over successive periods of years and stepping up regional cooperation between developing countries. It also put forward a proposal for a new incentive scheme, the GSP+, to promote all forms of sustainable development (democratic, social, environmental).

The Council introduced greater transparency, efficiency and predictability in the use of the trade defence instruments. Under the new rules, definitive measures will be adopted unless a simple majority of Member States opposes the Commission proposal. Furthermore, it introduces mandatory deadlines for the completion of review investigations and clearer rules on enforcement of trade defence measures. The Commission continued to carry out its own trade defence investigations (anti-dumping, anti-subsidy and safeguard measures) and to examine applications for market economy status submitted by various countries, including China and Ukraine.

At sectoral level, the Council concluded agreements on steel products with Kazakhstan, Russia and Ukraine, taking account of the newly enlarged EU. It also adopted a regulation on the abolition of all existing textile and clothing quotas and the introduction of a mechanism for monitoring imports, while the Commission proposed various measures for strengthening the competitiveness of the EU textiles and clothing industry in the light of the ending of quotas from 1 January 2005.

The Council also decided to maintain the temporary mechanism for the defence of shipbuilding, which targets South Korea in particular.

The Union improved its system of cooperation and mutual administrative assistance in customs matters with its trading partners, for instance through the signing of a broad agreement with the United States and the initialling of an agreement with China and by setting down the conditions for an agreement with India. More generally, the Council amended the act on the accession of the Community to the Kyoto Convention on the simplification and harmonisation of customs procedures to take account of enlargement.

In the interests of improving security at external borders without damaging trade, legislative work continued on the proposal to amend the Community Customs Code, notably by introducing simplified procedures and information technology. Work also continued on the proposal to prevent money laundering through customs cooperation. The Council adopted a regulation on the Community regime for the control of exports of dual-use items and technology. It also adopted a regulation laying down rules for the monitoring of trade in certain substances used for the illicit manufacture of narcotic drugs and psychotropic substances.

Key points

- *Thanks largely to the EU's efforts, the World Trade Organisation was able to adopt decisions finalising the first half of the Doha Development Agenda. WTO members*

reached agreement on parameters in five key areas: agriculture, industrial products, development issues, trade facilitation, and services. This achievement confirmed the new commitment of the WTO members to the 'development' dimension of the DDA. The EU declared its resolve to continue striving for early completion of the Doha Agenda.

- *The WTO framework agreement will bring a substantial cut in trade-distorting agriculture support, the elimination of trade-distorting export competition practices and a significant opening of agriculture markets. It also lays down the terms for the negotiations on industrial products in line with the EU's objectives, sets a May 2005 deadline for the submission of new or revised offers in the key services sector, and formally opens talks on trade facilitation, one of the EU's core priorities.*
- *The Union pledged trade-related assistance to the developing countries. Between 2001 and 2003, EUR 2 billion was earmarked for such assistance and a similar commitment has been made for the next four or five years.*
- *The Commission proposed new guidelines on the generalised system of preferences (GSP) for 2006–08. The GSP is a key instrument in helping developing countries reduce poverty through revenues from international trade. The Commission proposes to improve the current system by simplifying the arrangements, extending the range of products covered, and targeting the benefits at the developing countries in greatest need. It also recommends the introduction of an additional scheme ('GSP+') to provide incentives for practices conducive to sustainable development.*
- *The Council has further strengthened import controls on the main synthetic drug precursors in order to address the heightened concern relating to amphetamine-type stimulants. The aim is to prevent precursors, which in principle are not produced in the EU, reaching illegal manufacturers and traffickers.*



Chapter XX

Development cooperation and humanitarian aid

In accordance with the millennium development goals agreed at global level in 2000, poverty alleviation remained one of the EU's main development cooperation priorities in 2004. To that end, the Commission presented an action plan to aid commodity-dependent developing countries and their producers, who are particularly vulnerable to poverty. Similarly, it proposed focusing attention on land policy and land reform in the developing countries.

Stressing the growing impact of poverty diseases on human security and human rights, the Commission adopted a coherent European political framework to combat HIV/AIDS, malaria and tuberculosis. It also made a firm commitment to 'education for all' and to the millennium development goals in education. Its priority is to ensure that by 2015 all children in the world, especially girls, complete primary school education. It also supported the campaign to outlaw child labour in a strategic partnership with the International Labour Organisation.

In the field of external aid, the Commission — supported by the Council — made recommendations to ensure fulfilment of the pledges made in 2002 at the Monterrey Financing for Development Conference, above all closer policy coordination and harmonisation of procedures. It also proposed extending the untying of external aid. Under the financial perspective 2007–13, the Commission proposed creating four new financing instruments which, from 2008, would include financing for the African, Caribbean and Pacific States, currently channelled through the European Development Fund. Of these new tools, the financial instrument for development cooperation and economic cooperation will be the most important for implementing development policy. The new stability instrument will provide a rapid, flexible response to crisis situations.

Horizontal issues in relations with developing countries were also tackled. Parliament and the Council adopted a regulation to support the mainstreaming of gender analysis in all areas of development cooperation policies. They also widened the scope of decentralised cooperation with non-State actors.

The sustainable development initiatives launched by the European Union at the Johannesburg summit in 2002 were followed up. The Council approved the Commission's proposal to set up a water facility for the African, Caribbean and Pacific countries; and the Commission also proposed setting up an energy facility for those countries on the same lines. In a follow-up to its FLEGT (forest law enforcement, governance and trade) action plan of 2003, the Commission set out a legislative framework designed to tackle illegal logging.

The Commission worked in close cooperation with Member States, third countries and the Vienna-based UNODC (UN Office on Drugs and Crime) to combat drugs; it took part in a number of international and regional conferences and continued to finance cooperation projects. These projects provide technical assistance to improve border controls, develop alternative crops and underpin international efforts to eradicate the production of illicit substances.

On humanitarian aid, the Treaty establishing a Constitution for Europe sets out the principles governing the EU's policy, which includes an approach based on meeting actual humanitarian needs. The aid strategy continued to draw attention to the 'forgotten crises' in regions such as the western Sahara and Chechnya. The European Community Humanitarian Office (ECHO), which became a directorate-general of the European Commission, committed over EUR 500 million in 2004. African countries were the main recipients of this aid, much attention being focused on the crisis in Darfur, Sudan. At the very end of the year, the sheer magnitude of the tsunami that hit countries of south and south-east Asia triggered the mobilisation of emergency aid ahead of longer term rehabilitation operations.

Key points

- *A new action plan was drawn up to help developing countries reduce their dependency on agricultural commodities, improve their export performance and reduce their vulnerability to price fluctuations. The EU will adopt a strategy to support the cotton sector in Africa aimed at obtaining fairer trade conditions on international cotton markets and making the cotton sector in African countries more competitive.*
- *Over 1.1 billion people worldwide have no access to safe drinking water and about 2.4 billion people lack adequate sanitation. In response to this situation, the EU approved the creation of a new European water facility to improve access to water and sanitation for people in Africa, the Caribbean and the Pacific. EUR 500 million from the reserve of the ninth EDF has been earmarked for this initiative.*
- *The Commission proposed an innovative approach to tackling the problem of illegal logging and the related trade in illegally harvested timber. It involves promoting good management through voluntary partnerships with timber-producing countries and setting up a legally binding licensing scheme with partner countries to ensure that only legal timber from these countries is allowed into the EU.*

Chapter XXI

Relations with third countries and regional groupings

As part of its proposals on the Union's future financial perspective (2007–13) (see Chapter XXII), the Commission proposed the introduction of four new instruments for financing external aid: a pre-accession assistance instrument, to cover operations in current and future candidate countries (see Chapter II); a European neighbourhood and partnership instrument, aimed at third countries participating in the neighbourhood policy (see Chapter XVIII); a general-purpose development cooperation and economic cooperation instrument (see Chapter XX); an instrument for stability, for use in crisis situations (see Chapter XX). Together with the existing humanitarian aid (see Chapter XX) and macrofinancial assistance tools (see Chapter III), the proposed new instruments respond to the need to simplify aid delivery structures by eliminating overlaps and enhancing the coherence, flexibility and profile of external assistance.

Regarding the European Economic Area (EEA), an agreement on the enlargement of the EEA entered into force on 1 April, allowing the 10 new EU Member States to join the EEA at the same time as they joined the EU. In October, nine agreements covering areas such as taxation, asylum, the audiovisual sector and the environment were signed simultaneously between the Union and Switzerland.

The stabilisation and association process, launched several years ago and aimed at the countries of the western Balkans, saw further progress this year. 'European partnerships' were established with Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, and Serbia and Montenegro. Framework agreements were concluded with each of these countries laying down general principles governing their participation in Community programmes. The stabilisation and association agreement between the EU and the Former Yugoslav Republic of Macedonia entered into force on 1 April, while the EU police mission to the country was extended for a further 12 months. Regarding other operations in the field, the Council approved the launch of the military operation 'Althea', which would take over from the NATO-led multinational stabilisation force in Bosnia and Herzegovina.

Also, in the context of the enlargement process (see Chapter II), the Commission delivered a favourable opinion on opening accession negotiations with Croatia, while the Former Yugoslav Republic of Macedonia also applied for EU membership.

As in previous years, meetings between ministers, at general or sectoral level, contributed to further strengthening the Euro-Mediterranean partnership. A conference of Euro-Mediterranean industry ministers culminated in the adoption of a Euro-Mediterranean Charter for Enterprise, while a meeting of the foreign ministers took place in November.

At bilateral level, an association agreement was signed with Egypt. Elsewhere, convinced that it was in the EU's fundamental interest to seek greater engagement with Iraq, the Commission set out medium-term objectives for developing EU-Iraq relations. The restoration of relations with Libya was of keen interest to the Council, which decided to repeal the restrictions imposed by the EU pursuant to UN Security Council resolutions.

Frequent summits with the countries of eastern Europe, the Caucasus and central Asia once again provided the opportunity for progress. At the EU-Russia summit in May, the two parties signed an agreement on trade arrangements with a view to Russia's accession to the World Trade Organisation and President Putin indicated his intention of speeding up the process of ratifying the Kyoto Protocol, allowing ratification to be finalised before the EU-Russia summit in November. At the second summit, the parties noted how much progress had been achieved towards creation of the 'common spaces' proposed in the context of cooperation with Russia and confirmed their determination to finalise the relevant roadmaps. Meanwhile, the EU-Ukraine summit welcomed the completion of the negotiations on a steel agreement, the adoption of a science and technology action plan, and the forthcoming signing of an agreement on the peaceful use of nuclear power. A partnership and cooperation agreement with Tajikistan was notable for being one of the first to include provisions on combating terrorism and weapons of mass destruction.

Annual summits were instrumental in helping the Union ensure greater coherence in its policies towards other industrialised countries. In its meetings with the United States, the salient issues were the future of Iraq, the transatlantic economic partnership, terrorism and non-proliferation of weapons of mass destruction. The main items on the agenda with Japan, besides political questions such as terrorism, non-proliferation and the situation on the Korean peninsula, were economic issues, including a framework agreement on investment promotion, adopted at the summit, and intellectual property rights. Two major initiatives were discussed with Canada: a 'Partnership agenda' and the guidelines of a new bilateral trade and investment enhancement agreement.

At the fifth Asia-Europe summit, held in Hanoi in October, the Union met its 13 partners from the region to discuss political issues (multilateral approach to addressing threats

such as terrorism and transnational crime) and economic matters (cooperation in areas such as information and communication technologies, energy, transport and intellectual property). At regional level, the Council approved the strategic priorities proposed by the Commission in 2003 vis-à-vis the countries of south-east Asia.

On the bilateral front, a partnership and development agreement was concluded with Pakistan. The Commission advocated setting up a strategic partnership with India, an initiative approved at the EU–India summit. The summit meeting with China saw a wide-ranging exchange of views on bilateral relations (including human rights and the arms embargo), discussions on regional and international issues, and the signing of sectoral agreements (on customs, nuclear research, science and technology) and financing agreements under the cooperation programme (Erasmus Mundus, information society, training and exchanges of executives, social security).

The third summit of Heads of State or Government of the 17 Latin American countries, 16 Caribbean countries and 25 EU Member States was held in Guadalajara (Mexico) and dealt primarily with strengthening regional integration, bi-regional cooperation in multilateral bodies and social cohesion. The EU financed a programme on social cohesion covering the whole of the Latin American region.

Regarding specific regional groupings, political dialogue and cooperation agreements were signed with the countries of Central America and those of the Andean Community. The ongoing negotiations with Mercosur on a free trade agreement have yet to be finalised.

Various bilateral agreements were signed: a science and technology cooperation agreement with Brazil, a similar agreement with Mexico and an agreement concerning an environmental management programme with Ecuador.

Concerning relations with the 78 countries of the African, Caribbean and Pacific region (ACP), implementation of the Cotonou agreement, which entered into force in 2003, is now up to speed. Mozambique's accession to the protocol on ACP sugar was approved, but a similar request by Burkina Faso was rejected. The Council adopted negotiating directives for the five-year review of the Cotonou agreement, which was signed in 2000.

On trade relations, negotiations were opened with all ACP regions with a view to concluding economic partnership agreements to replace the trade provisions of the Cotonou agreement as from 2008.

On the institutional front, the 10 new EU Member States went straight into action: within just a few days of enlargement, their representatives took part in the annual meeting of the ACP–EC Council of Ministers. The Commission held its first joint meeting with its African Union counterpart, created in 2003.

On the bilateral front, the possibility of suspending application of certain elements of the Cotonou agreement following consultations with partner countries, as provided for

in Article 96 of the agreement in the event of infringements against human rights, democratic principles or the rule of law, was invoked against certain ACP countries, notably Zimbabwe and Côte d'Ivoire. The suspension was lifted, however, in the case of Guinea-Bissau, as the Union wanted to normalise relations in view of the positive measures taken by the government. Relations are also in the process of being normalised with Haiti.

Key points

- *By establishing 'European partnerships' with the countries of the western Balkans, the European Union wants to help them advance towards European integration and prepare for future EU membership within a coherent framework. The Union's support is geared mainly to helping prepare action plans setting out the ways and means by which these countries intend to meet the conditions for greater EU integration.*
- *The agreement on the enlargement of the European Economic Area (EEA) to the new EU Member States ensured the continued homogeneity of the internal market, including Iceland, Liechtenstein and Norway, on enlargement of the European Union. The agreement also secures a contribution of more than EUR 1 billion over five years from the EEA and EFTA countries to the economic and social cohesion of the enlarged EEA.*



Chapter XXII

Financing of Community activities, resource management, protection of the Communities' financial interests

In February the Commission presented the financial perspective proposed for 2006 onwards in a communication 'Building our common future — Policy challenges and budgetary means of the enlarged Union 2007–13'. It considered that the future financial framework should offer the stability to support the policy objectives of the European Union on a multiannual basis and that it must be targeted to deliver concrete and selected priorities that benefit Member States and citizens: the promotion of sustainable development, the development of European citizenship, and the strengthening of the EU as a global partner. In this context, the headings of the new framework proposed were substantially restructured compared with hitherto in order to enhance the Commission's policy priorities in general (preservation and management of natural resources; citizenship, freedom, security and justice; the EU as a global partner; and administration) and the objectives of the Lisbon strategy in particular (growth, competitiveness and cohesion).

In July the Commission followed up its earlier document by presenting a new communication which took stock of the work done since February, provided an assessment of the value added by Community action, examined the resources required to achieve the project proposed and explained how the instruments delivering this project would be simplified and rationalised. The communication was accompanied by a series of proposals fleshing out the Commission's budgetary plans.

On a budgetary level, the Commission suggested various changes to the own resources system, including the introduction of new arrangements centred around a main fiscal resource and the introduction of a generalised mechanism for the correction of budgetary imbalances.

It also prepared the ground for future discussions with the European Parliament and the Council on the renewal of the interinstitutional agreement of 1999 on budgetary discipline and improvement of the budgetary procedure. The Commission proposed that certain mechanisms for the management of the financial framework be simplified, while retaining the existing basic principles of budgetary discipline, in particular the structure of the financial framework divided into broad categories of expenditure ('headings'), the definition of maximum amounts ('ceilings') for commitment appropriations in each heading, and the setting of an annual ceiling on payment appropriations.

In September the Commission supplemented this initial package of proposals in various areas of activity. As regards external assistance for example, it proposed replacing the existing range of financial instruments with a simpler, more efficient framework.

As regards the financial rules, the Commission adopted a standard financial regulation for the implementation of the operating budget of each of the executive agencies carrying out Community programmes. It also adopted a draft revision of the implementing rules for the financial regulation: the purpose of this revision is to transpose the consolidated directive on the coordination of public procurement procedures adopted this year as part of the completion of the internal market so that it can apply in the execution of the general budget. The revision of the implementing rules should also ease the arrangements governing low-value contracts, which are not covered by the directive, and small grants.

As a continuation of the overall strategic approach established in 2000 for the protection of financial interests and the fight against fraud and the action programme for 2001–03, the Commission adopted a new action programme for 2004–05. This initiative is designed to strengthen the regulatory framework with regard to the activities of the European Anti-Fraud Office (OLAF). The Commission also made proposals to clarify the rules governing the different stages of investigation by OLAF and the exchange of information between OLAF and the Community's institutions and bodies and also to provide stronger procedural guarantees.

On 16 December, the European Parliament adopted the 2005 budget which comes to EUR 116.5 billion in appropriations for commitments and to EUR 106.3 billion in appropriations for payments, corresponding to 1.004 % of the Member States' gross national income.

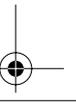
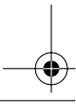
Key point: the new financial framework 2007–13

To meet the main political priorities (promotion of sustainable development, development of European citizenship and the strengthening of the EU as a global partner) which it has set for the enlarged European Union, the Commission proposes that the future financial perspective be divided into five headings, which are set out in the table on p. 76.



The annual average ceiling on payment appropriations for the period 2007–13 is 1.14 % of the gross national income (GNI) of the enlarged Union, leaving a substantial margin under the own resources ceiling of between 0.09 % and 0.16 % of GNI, depending on the year. This means that the financial framework is entirely compatible with the current own resources ceiling of 1.24 %, which has remained constant since 1999 and which the Commission does not propose to change.

An overview of the proposed framework is set out overleaf.



Financial framework 2007–13

(million EUR — 2004 prices)

Appropriations for commitment	2006 ⁽¹⁾	2007	2008	2009	2010	2011	2012	2013	
1. Sustainable growth	46 621	58 735	61 875	64 895	67 350	70 660	72 865	75 950	
1a. Competitiveness for growth and employment	8 791	12 105	14 390	16 680	18 965	21 250	23 540	25 825	
1b. Cohesion for growth and employment ⁽²⁾	37 830	46 630	47 485	48 215	48 385	49 410	49 325	50 125	
2. Preservation and management of natural resources	56 015	57 180	57 900	58 115	57 980	57 850	57 825	57 805	
of which: Agriculture — Market-related expenditure and direct payments	43 735	43 500	43 673	43 354	43 034	42 714	42 506	42 293	
3. Citizenship, freedom, security and justice	2 342	2 570	2 935	3 235	3 530	2 970	4 145	4 455	
4. The EU as a global partner ⁽²⁾	11 232	11 280	12 115	12 885	13 720	14 495	15 115	15 740	
5. Administration ⁽⁴⁾	3 436	3 675	3 815	3 950	4 090	4 225	4 365	4 500	
Budgetary compensations ⁽⁵⁾	1 041	120	60	60					
Total appropriations for commitment	120 688	133 560	138 700	143 140	146 670	150 200	154 315	158 450	
Total appropriations for payment ⁽²⁾ ⁽³⁾	114 740	124 600	136 500	127 700	126 000	132 400	138 400	143 100	Average
Appropriations for payment as a percentage of GNI (%)	1.09	1.15	1.23	1.12	1.08	1.11	1.14	1.15	1.14
Margin available (%)	0.15	0.09	0.01	0.12	0.16	0.13	0.10	0.09	0.10
Own resources ceiling as a percentage of GNI (%)	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24

⁽¹⁾ 2006 expenditure under the current financial perspective has been broken down according to the proposed new nomenclature for reference purposes and to facilitate comparisons. Expenditure in headings 3 and 4 includes amounts corresponding to the Solidarity Fund (EUR 961 million at 2004 prices) and the EDF (estimated at EUR 3 billion).

⁽²⁾ Includes expenditure for the Solidarity Fund (EUR 961 million at 2004 prices) as from 2006. However, corresponding payments are calculated only as from 2007.

⁽³⁾ The integration of the EDF is assumed to take effect in 2008. Commitments for 2006 and 2007 are included only for comparison purposes. Payments on commitments before 2008 are not taken into account in the payment figures.

⁽⁴⁾ Includes administrative expenditure for institutions other than the Commission, pensions and the European Schools. Commission administrative expenditure is integrated in the first four expenditure headings.

⁽⁵⁾ Amounts in the European Union common position for the Accession Conference with Bulgaria.



Chapter XXIII

Community law

Operational since 1 November, the new EUR-Lex website is the result of the merging of the two public services providing access to European Union law, EUR-Lex and CELEX. It provides direct access free of charge to the vast corpus of documentation which exists on the Community legal order: daily editions and back issues of the Official Journal, consolidated legislation, Court of Justice case-law, Commission documents of public interest, etc.

In connection with enlargement, special attention was paid to documents in the new official languages of the European Union. A special edition of the Official Journal was produced in these new languages containing all the secondary legislation in force as at 1 May 2004.



Chapter XXIV

Institutions and other bodies

In addition to the drafting and signing of the Constitutional Treaty (see Chapter I), the main events in the life of the European Union institutions in 2004 were the election of the new European Parliament and the installation of the new Commission.

The sixth election of the European Parliament by direct universal suffrage was held throughout the enlarged Union from 10 to 13 June, with an overall turnout of 44.6 %. Following enlargement, the new Parliament has 732 members, 30 % of whom are women. The European People's Party (PPE) remains the largest political group ahead of the Party of European Socialists (PSE) while the Greens, the Liberals and the European United Left all made significant gains. At its inaugural part-session in July, Parliament elected Mr Borrell Fontelles, a Spanish member of the PSE, its President for two-and-a-half years.

There were two successive changes to the composition of the Commission, for different reasons.

Firstly, following the entry into force of the Accession Treaty on 1 May, the Commission, under Mr Prodi's presidency since 1999, was enlarged from 20 to 30 Members with the addition of one Commissioner for each new Member State.

Secondly, in view of the end of the Prodi Commission's term of office on 31 October, in June the Council nominated Mr Barroso, the Portuguese Prime Minister, future President of the Commission. This choice was approved by the new European Parliament in July. A list of 25 persons to be Members of the new Commission was then drawn up by the Council by joint agreement with the President-designate in line with the proposals put forward by each Member State. In view of the emerging difficulties encountered by some of the persons nominated during their hearings by Parliament, in October Mr Barroso decided that this original list should be changed before being submitted to Parliament for a vote. On 18 November, Parliament approved the composition of the new Commission, which was then appointed by the Council and took up office on 22 November.

The new Staff Regulations of Officials and Conditions of Employment of Other Servants of the European Communities entered into force on 1 May.





Chapter XXV

Transparency, relations with the public, information and communication

The Commission presented an initial qualitative assessment of the application of the 2001 regulation on public access to the documents of the European institutions. This assessment was accompanied by proposals for action to consolidate the right of access and to incorporate it further into a public information policy.

In the field of statistics, new regulations have established common or harmonised frameworks for: the provision of quarterly statistics on government accounts in Community countries; systematic production of trade statistics from 1 January 2005; provision by national statistical institutes of the statistics required for structural indicators and the 'eEurope' comparative method in the field of the information society. The Commission has proposed amending the common classification of territorial units for Community statistics submitted by the new Member States of the Union.

In the spring, the Commission reviewed the European Union's information and communication strategy established in 2002. It stressed that the strategy, which is targeted at the general public, will have to adjust to new challenges, resulting particularly from enlargement. The main focus will be on improving the Union's image and the public perception of its tasks, its institutions and their legitimacy. In this connection, the Commission called for a new approach to planning and a clearer definition of the various priority information campaigns for 2005 and subsequent years. The Council has endorsed the broad lines of the approach advocated by the Commission. On taking up its duties, the new Commission, whose first Vice-President is responsible for communication strategy, committed itself to defining a new communication strategy to be presented to the European Council in June 2005. Listening to public opinion will be an essential component of this strategy.

Key points

- *The Commission considers that the information and communication strategy defined in 2002 must be geared to new challenges in its first year of application after enlargement. It advocates mobilising curiosity through a message based on common values but sufficiently tangible to be meaningful to the general public. To this end, it proposes updating the strategies underlying the various priority information topics previously identified (enlargement, the future of the Union, the area of freedom, security and justice, the euro, and the role of Europe in the world).*

In this context, the strategy developed to prepare for the changeover to the euro in the new Member States, and to boost public support for the euro and for economic and monetary union (EMU) in general, includes the following main elements: partnerships with the Member States, companies and civil society; twinning programmes between old and new Member States; and networking with information relays.

Moreover, the Commission has embarked on preparatory work for drawing up a new communication strategy which will focus more on listening to public opinion.

- *At operational level, the Commission has modernised its various instruments of communication, including the Europa server — the European Union online (europa.eu.int — on average 5 million documents consulted each day); Europe Direct (information relays for citizens); partnerships with Member States on information campaigns.*

It also answered more than 85 000 questions from the public about the European Union via Europe Direct, a 50 % increase on 2003. It has also set up Commission representations in the 10 new Member States, which brings the number of representations and regional offices across the Union to 33.

The 'Europe by satellite' (EbS) television system broadcast by satellite and on the Internet more than 2 500 hours of news about the Community institutions. Since 1 May, live coverage of the main events (about 60 % of air time) has been broadcast in the 20 official languages of the Union.



The year in brief

January

14 Commission adopts communication 'Europe and basic research'.

February

10 Commission adopts financial perspective 2007–13.

11 Parliament and Council adopt regulation on compensation and assistance to air passengers in the event of denied boarding and/or cancellation or long delay of flight.

Parliament and Council adopt directive on packaging and packaging waste.

March

10 Parliament and Council adopt regulations on 'single European sky' and directive on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States.

18 European Union–Canada summit.

22 Council establishes general framework for European partnerships with western Balkans.

Former Yugoslav Republic of Macedonia applies for membership of the European Union.

25–26 European Council spring session.

April

15 Commission adopts proposal for directive on common system of value added tax.



- 20 Commission adopts opinion on Croatia's application for membership of European Union and communications on modernising social protection and a proactive competition policy. It also adopts communication on an industrial policy for an enlarged Europe.
- 21 European Parliament and Council adopt directive on environmental liability.
- 29 Parliament and Council sign directive on minimum safety requirements for tunnels in the trans-European road network and adopt second railway package.
- European Parliament and Council adopt regulation on coordination of social security systems.
- Council adopts regulations completing reform of the common agricultural policy and directive on compensation to crime victims.

May

- 1 Treaty of Athens formalising the accession of 10 new Member States enters into force.
- 12 Commission adopts White Paper on services of general interest.
- 21 European Union–Russia six-monthly summit.
- 28 European Union–Latin America summit.

June

- 10–13 European elections.
- 14 Council adopts decisions on principles, priorities and conditions for European partnerships with western Balkans.
- 16 Commission adopts communication on guidelines for future policy to support research.
- 17–18 European Council meets in Brussels and Heads of State or Government reach agreement on draft Treaty establishing a Constitution for Europe.
- 22 European Union–Japan summit.
- 26 European Union–United States summit.
- 29 Council nominates Mr Barroso as President-designate of the Commission and reappoints Mr Solana Secretary-General of the Council and High Representative for the CFSP.

July

- 14 Commission adopts new communication on financial perspective 2007–13 and series of legislative proposals on related instruments. It also adopts proposal for decision on system of own resources.

September

- 27 Commission adopts communication on combating financial crime.
- 29 Commission adopts communication on simplifying instruments for external assistance under the future financial perspective.

October

- 6 Commission adopts recommendation on Turkey's progress towards accession and communication on progress in the enlargement process.
- 7–9 European Union–Asia summit.
- 20 Commission adopts proposal for regulation on generalised tariff preferences 2006–08.
- 25 Council adopts framework decision on criminal acts and penalties in the field of drug trafficking.
Commission adopts communication on European energy initiative for developing countries.
- 26 Council establishes European agency for the management of cooperation at the Union's external borders.
- 27 European Parliament and Council adopt directive on a European greenhouse gas emissions trading system under the Kyoto Protocol.
- 29 Treaty establishing a Constitution for Europe is signed in Rome.

November

- 4–5 European Council meets in Brussels and approves list of Members-designate of new Commission.
- 8 European Union–India summit and approval of strategic partnership.
- 18 Parliament approves list of Members and Council appoints new Commission.
- 22 New Commission takes up office.
- 25 Second European Union–Russia six-monthly summit.
Military operation 'Althea' is launched in Bosnia and Herzegovina.

December

- 1 Commission adopts communication on revision of Greek budgetary data.
- 8 European Union–China summit.
- 9 Commission proposes series of action plans under the European neighbourhood policy.



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- 14 Commission adopts communication on situation in Germany and France in relation to their obligations under the excessive deficit procedure.
- 16–17 European Council meets in Brussels and approves opening, subject to certain conditions, of negotiations on Turkey's accession to the European Union.
- 31 European Union allocates EUR 23 million in emergency humanitarian aid to the countries of south and south-east Asia affected by the tsunami on 26 December.





European Commission

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