



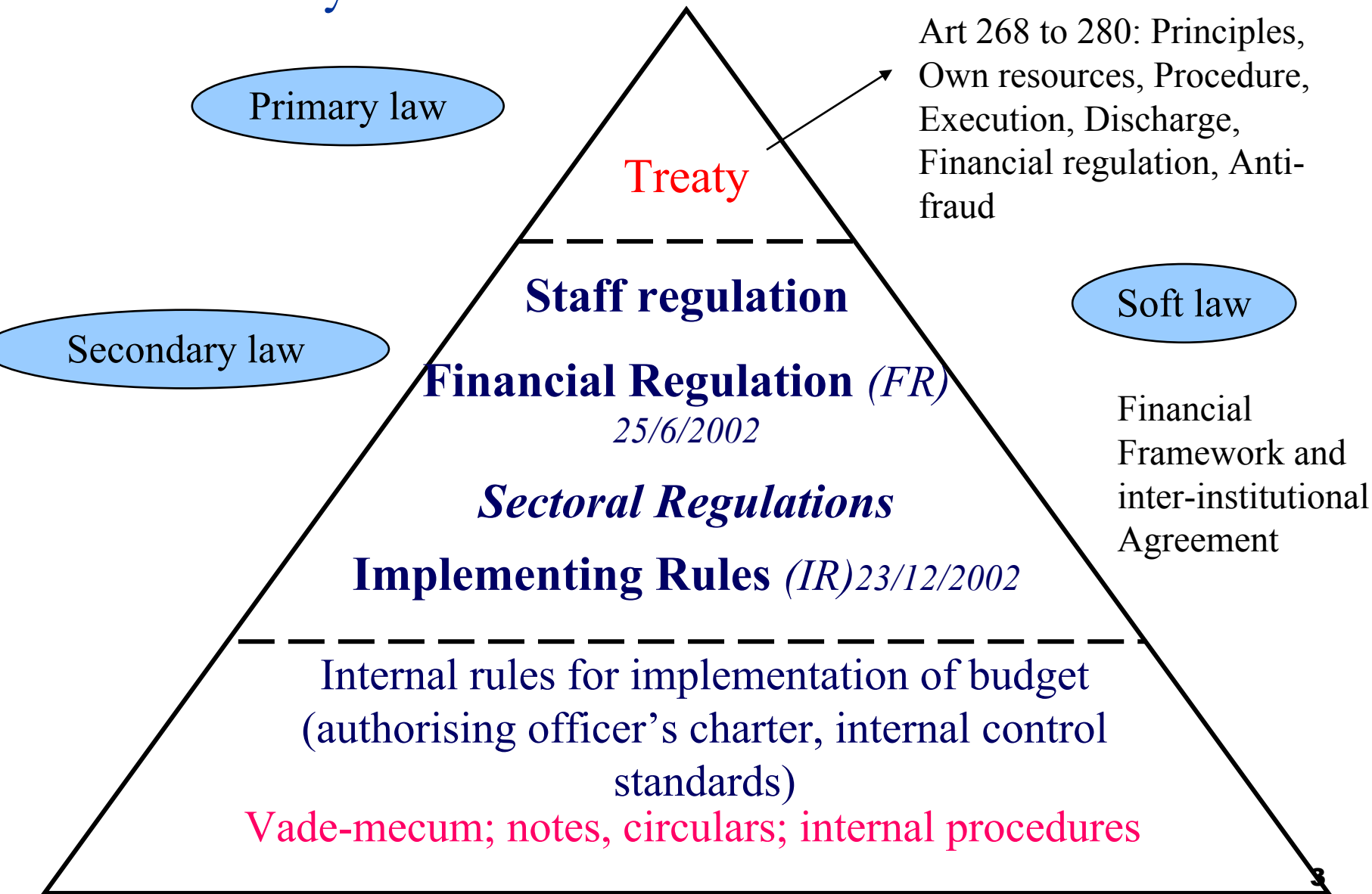
*Explanatory screening with
Croatia and Turkey
6 September 2006*

The EU BUDGET

1. The main budgetary rules

*Explanatory screening with Croatia and Turkey
6 September 2006*

Hierarchy of norms



The Budget Principles

Budgetary principles to ensure democratic control :

- ☞ Unity & accuracy
- ☞ Annuality
- ☞ Equilibrium
- ☞ Unit of Account (€)
- ☞ Universality
- ☞ Specification
- ☞ Sound financial management
- ☞ Transparency



Each legislative act implementing the budget has to comply with these budgetary principles

Unity & Accuracy

- The budget is the instrument which for each financial year forecasts & authorizes all revenue & expenditure considered necessary for the Communities.
- This single document includes European Community expenditure related to 2nd and 3rd pillars: CFSP & Police Judicial Co-operation in Criminal matters (PJCC), and European Atomic Energy Community (not included :EDF -some EUR 4 billion-, and 28 Agencies for some EUR 300 million).
- It records the guarantee for borrowing-lending operations and payments to the guarantee fund for external relations.

Annuality



- Appropriations entered into the budget shall run from January 1 until December 31 (Exception : carryovers)
- However, the Community budget needs to engage in multiannual operations: commitments must cover a larger period than the one year.
- The budget will therefore contain differentiated appropriations with commitment & payment authorized for the year
- Some expenditure is covered by non-differentiated appropriations: mostly agriculture and administration

Commitment appropriations

- CA cover the total cost in the financial year of legal obligations (contracts,...) entered into in respect of operations to be implemented over a period of more than one financial year
- the term "appropriations **for** commitments " adds up commitments stemming from differentiated and non-differentiated appropriations (the same for payments).

Payment appropriations

- PA cover, up to the annual budgeted amount, expenditure arising either from current or from previous years commitments.
- Corresponding to the cash flows that have to be financed by the Member States into the EC budget, the Council tends to limit the rate of increase of the appropriations **for payments**.

Commitment appropriation

Payment appropriations : schedule

Year	CA	Payment appropriation							
		1999	2000	2001	2002	2003	2004	2005	2006
1999	2.000	400	300	300	300	300	200	100	100
2000	2.200		500	400	400	300	300	300	
2001	2.400			2.000	200	100	100		
2002	2.600				1.700	900			
2003	4.000					2.000	1.000	600	400
2004	3.000						2.000	1.000	
2005	2.000							500	500
2006	2.500								1.000
	20.700	400	800	2.700	2.600	3.600	3.600	2.500	2.000

Differentiated appropriations

- Differentiated appropriations give rise to the outstanding commitments or "RAL" (€ 119 billion end 2005)
- Only part of the outstanding commitments are potentially problematic (older than 5 years or without payments since 2 years). The "PAR " = € 5,6 billion end 2005.
- Unjustified RAL (eg programme completed) must be decommitted

Equilibrium



- In the Budget adopted, revenue & payment appropriations must be exactly in balance
- The EC, unlike its Member States, is not allowed to borrow to cover its expenditure.
- Being absolute authorised ceilings, actual payments cannot exceed the budget and are usually under-implemented. The (positive) balance is to be budgeted as revenue the following year.

Unit of Account (€)

- Budget drawn up & implemented & accounts to be presented in euro

Universality

- ☐ Total revenue shall cover total appropriations for payments, no expenditure thus depending on a given revenue (exception : earmarked revenues)
- ☐ All revenue and expenditure shall be entered in full in the budget and in accounts without any adjustment against each other

Specification

- ☐ Appropriations are earmarked by the Budgetary Authority for specific purposes, by title and chapter.
- ☐ Transfer of appropriations between titles and chapters are subject to BA authorization (excepted a flexibility of 10%)

Sound financial management

☰ Sound financial management is defined as :
principles of economy, efficiency &
effectiveness

☰ “SMART” objectives to be set for all
sectors of activity covered by budget

☰ Evaluations ‘ex-ante’, during & ‘ex-post’ to be provided for
all programmes & activities and results to be disseminated

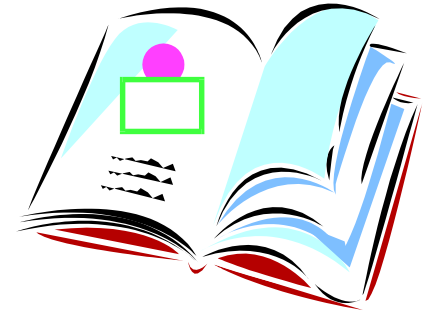
Specific
Measurable
Achievable
Relevant
Timely

Sound financial management

The financial regulation (Art. 27) defines this principle

- ▣ Efficiency (best relationship between resources and results)
- ▣ Effectiveness (attaining the specific objectives and intended results to be measured through indicators)
- ▣ Ex-ante and ex-post evaluations of significant programmes
- ▣ Economy (resources in due time, appropriate quantity and quality, best price)

Transparency



- The President of EP shall have the budget published in OJ within 2 months following its adoption
- The Commission shall publish a summary of the budget figures within 1 month of its adoption on the Europa web site
- Consolidated financial statements & financial management reports of institution to be published in OJ



2. The annual budgetary procedure

*Explanatory screening with Croatia and Turkey
6 September 2006*

Each institution is involved in the financial system

- Each Institution prepares their provisional State of estimates (institutional autonomy)
- Adoption by the Commission of the PDB
- Adoption of the budget: Budgetary Authority (Parliament and Council)
- Implementation of the operational budget: Commission only; administrative budget: all institutions for their section
- Control of community finances: Court of Auditors, Parliament

The timetable according to the Treaty

- State of estimate of expenditure all Institutions 1 July
- Preliminary Draft Budget
(Commission to Council) 1 September
- Draft Budget
(Council to European Parliament) 5 October
- Draft Budget amended / modified
(European Parliament to Council) 19 November (+ 15 days)
- Draft Budget
(Council to European Parliament) 4 December (+ 15 days)
- Adoption 19 December (+ 15 days)

The pragmatic calendar

- State of estimate of expenditure all Institutions April
- Preliminary Draft Budget
(Commission to Council) 15 June
- Draft Budget
(Council to European Parliament) mid July
- Draft Budget amended / modified
(European Parliament to Council) late October
- Draft Budget
(Council to European Parliament) mid November
- Adoption mid December

The sharing of competences

☰ **The 2 branches of the Budgetary Authority:**
Council and EP

☰ **Sharing of competences :**

☞ Compulsory Expenditure (CE) and

☞ Non-compulsory Expenditure (NCE)

☰ **A necessary cooperation**

☞ The rule of maximum rate of increase:

- Adopted NCE can only exceed MRI if EP and C agree
- MRI= average variation of national budgets and EU GNI(art 272 TEC)
- EP and C agree to accept the increase deriving from budgets established in conformity with Financial Framework (pt 18 IIA)

Compulsory expenditure

Non-compulsory expenditure

The distinction between compulsory expenditure (CE) and non-compulsory expenditure (NCE) determines the division of power over the budget between Parliament and Council (Parliament has the last word on NCE and Council on CE).

The definition:

Compulsory expenditure is expenditure which the budgetary authority is obliged to enter in the budget to enable the Community to meet its obligations. All other expenditure is Non-compulsory. See annexe IV of the Inter-Institutional Agreement for a classification of the expenditure.

Role of the Commission

- ☐ Commission assists at all meetings/ defends the PDB, comments on the amendments.
- ☐ If necessary, the Commission can send an **amending letter** to the EP and Council to update the agriculture expenditure and the international fisheries agreements before the end of October (Inter-Institutional Agreement).
- ☐ Proposals to amend the current budget (PDAB) are also possible and follow the same procedure as PDB.

Role of the Commission in the budget procedure

Debate on political priorities (orientation debate)

APS (Annual Policy Strategy)

Budgetary circular -hearings

Adoption of Preliminary Draft Budget (PDB)

Publication of PDB

Timetable

December n -2

February n-1

February/March n-1

April/May
(decision)

15 June

Interaction between the actors :

Trialogues and conciliation

Triologue (Commission, Council and Parliament on budgetary priorities)

End March

Triologue on the total expenditure, in particular the amounts of CE (Agriculture, CFSP and intl. Fisheries)

End of June/
beginning July

Conciliation on the results of the triologue at the « Budget » Council

Mid/End of
July

Triologue (implementation, open questions)

Mid-October

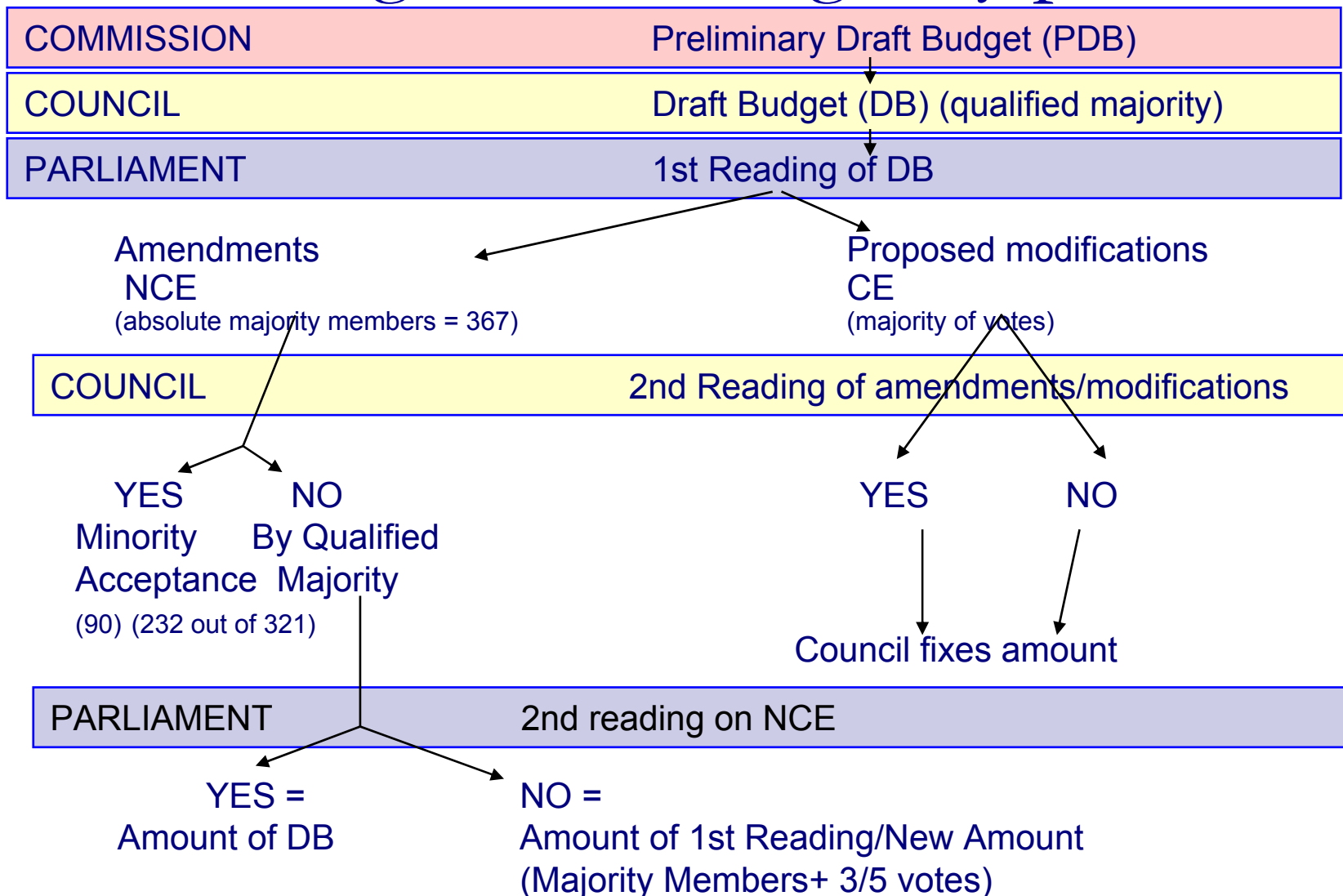
Triologue (NCE, CE and amending letter)

Mid-
November

Conciliation on the whole budget



The 4 readings in the budgetary procedure



Majority Members/Majority 2/3 Voting : **possible rejection of budget**

B 1980 rejected in December 1979 and B 1985 in December 1984

Letters of amendment

- The Commission may on its own initiative or if requested by another Institution , each in respect to their sections, present to the Council a LA to the PDB on the basis of new information not available at the time of the PDB.
- Save as otherwise agreed or in exceptional cases, the AL is put 30 days before the EP 1st reading to the C which must send its own draft to the EP 15 days before its 1st reading. (art 34 of FR)
- An ad hoc AL updating expenditure on agriculture and international fisheries agreements is presented after EP's first reading and before October 30 (Annex II.B of IIA)

Amending budgets

- ☰ If there are unavoidable, exceptional or unforeseen circumstances, the Commission may present preliminary draft amending budgets. Requests from other Institutions shall be sent to the Commission which may attach an opinion when submitting them to the C.
- ☰ Save in exceptional circumstances, the PDAB shall be submitted to C. before 1st September, and treated by C and EP within the deadlines foreseen by art 272. of the Treaty for the normal budget procedure.
- ☰ The PDAB devoted solely for budgeting the balance from the previous year **must** be submitted by COM within 15 days following the submission of the provisional accounts.

Rejection of the Budget and provisional 12ths

- EP can reject the Budget by the majority of its Members (367/732) and 2/3 of votes cast.
- Commission presents "new proposals" to amend the Council's 2nd reading so both arms of BA can agree in a "3rd reading".
- In the meanwhile, to ensure continuity of public service, art 273 TEC establishes provisional 12th arrangements.

Rejection of the Budget and provisional 12ths

- ☐ CA are made available monthly **per chapter** up to $\frac{1}{4}$ of previous year + $\frac{1}{12}$ th for each month elapsed.
- ☐ PA available monthly up to $\frac{1}{12}$ th of previous year's appropriations.
- ☐ Draft budget may not be exceeded nor new lines implemented.
- ☐ Additional $\frac{1}{12}$ th may be authorised by the Budget Authority (C for compulsory with QMV, EP for non-compulsory with majority of members and $\frac{3}{5}$ votes cast)



3. The structure of the budget

Explanatory screening with Croatia and Turkey
6 September 2006

Volumes of PDB and Sections of Budget

The PDB is composed of:

- ▣ volume 0: political presentation
- ▣ Volume 1: revenue, funding, posts ...
- ▣ Volume 2,3: EP and Council
- ▣ Volume 4: Commission, line by line
- ▣ Volume 5, 6 , 7 , 8 , 9: CoJ, CoA, ECOSOC, CoRegions, Ombudsman, Data protection supervisor.

These volumes turn into sections in the adopted Budget

Structure of the Budget

- ▣ The general statement of revenue presents the overall financing tables and details revenue by titles ,chapters.

- ▣ Staff and buildings of the EU are also presented.

- ▣ The statement of revenue and expenditure by section shows the revenue and expenditure for the 8 sections :
 - ☞ I. EP
 - ☞ II. C
 - ☞ III. COM
 - ☞ IV. CoJ
 - ☞ V. CoA
 - ☞ VI. ECOSOC
 - ☞ VII. CoR
 - ☞ VIII-A. European Ombudsman and B. EDPS

For each budget line

☰ The amounts:

- ☞ Amounts of appropriations (n) and (n-1),
outturn (n-2)
- ☞ Payment schedule (pluriannual)

☰ The remarks:

- ☞ Legal Basis: Article from the Treaty, F.R.,
Regulations, Decisions, Statute,...
- ☞ Destination of the appropriation
- ☞ Possible revenue, information to produce

The budget is Activity Based

- ▣ Allocation of resources coherent with political priorities, integrated allocation of operational and administrative resources
- ▣ Management of resources by outputs and results
- ▣ Budget structured by Activities (approx. 200), grouped by Policy Areas (31+1 reserve title)
- ▣ Total cost of policy areas is known, covering:
 - ☞ Financial interventions,
 - ☞ Support and Management,
 - ☞ Human Resources.

Basic data of the 2007 PDB



Global Amounts:

126,8 billion euros in commitments (+4.6% on 2006)

116,4 billion euros in payments (+3.9% on 2006)



In percentage of GNI: 1,0% (1,00% in 2006 also)



Major variations on the 2006 Budget:

1A. competitiveness: + 11,5%

1B. cohesion: + 14,8%

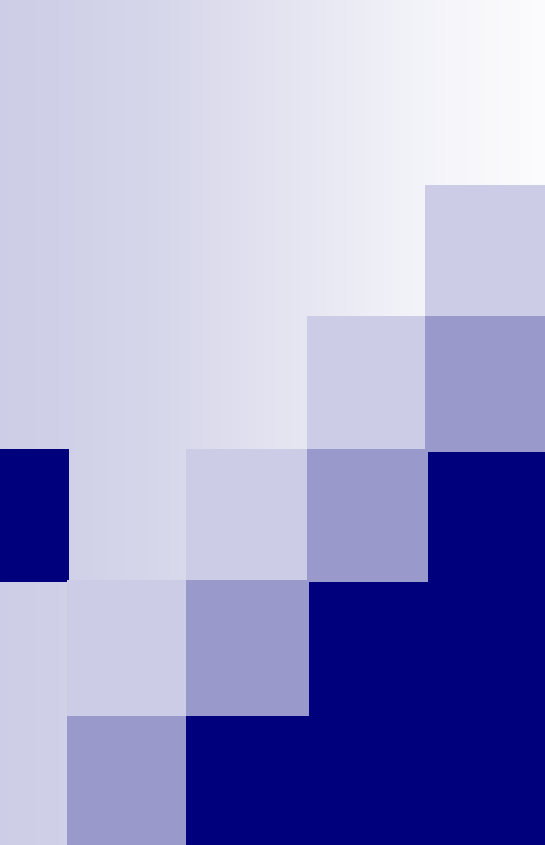
2. Natural resources: +1,2%

3. Citizenship, freedom, security and justice: + 1,2 %

4. The EU as a global partner: -20% (due to accession of BU+RO)

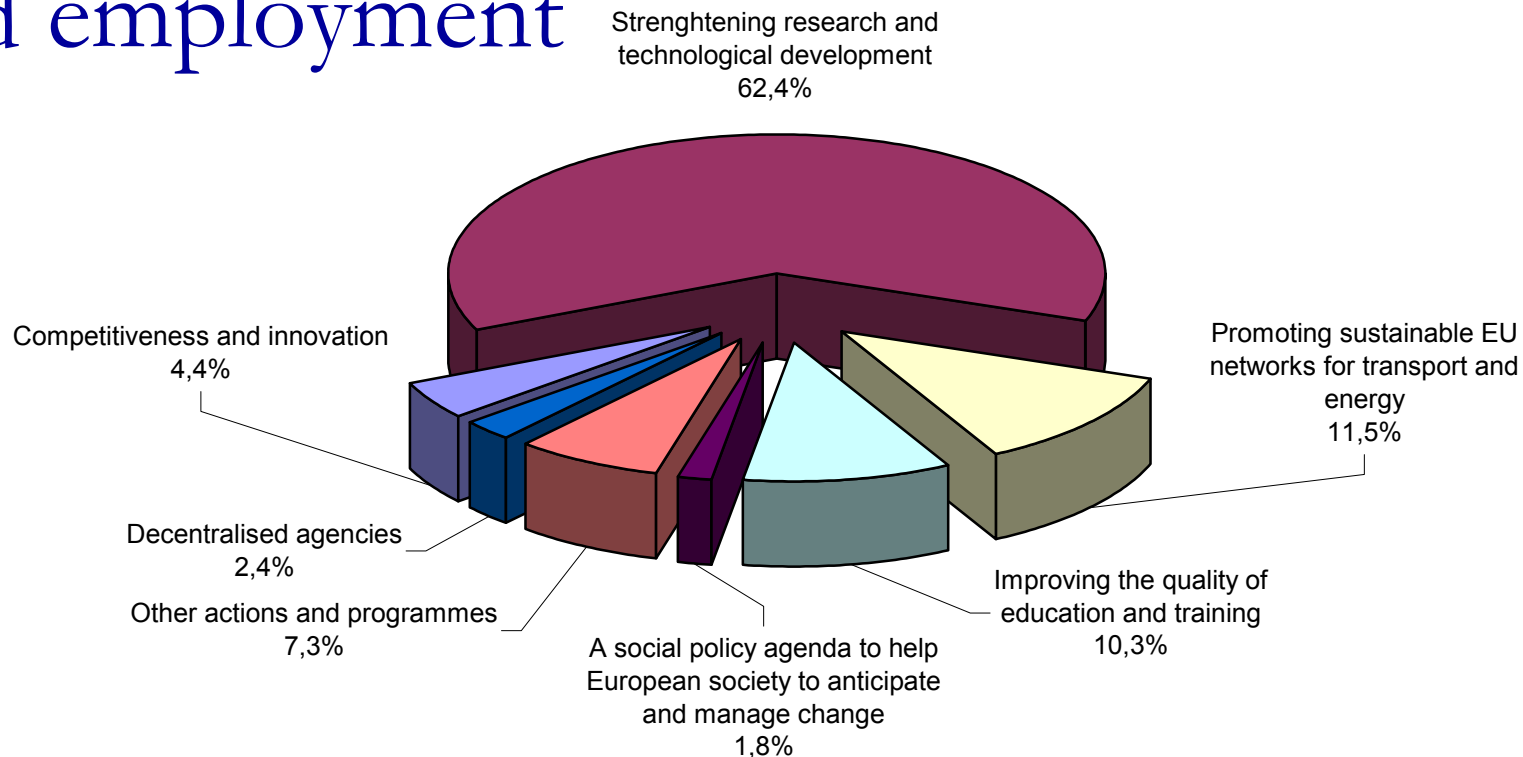
5. Administration: +6,0%

6. Compensation: -58,6 % (EU 10 transition facilities ended in 2006)



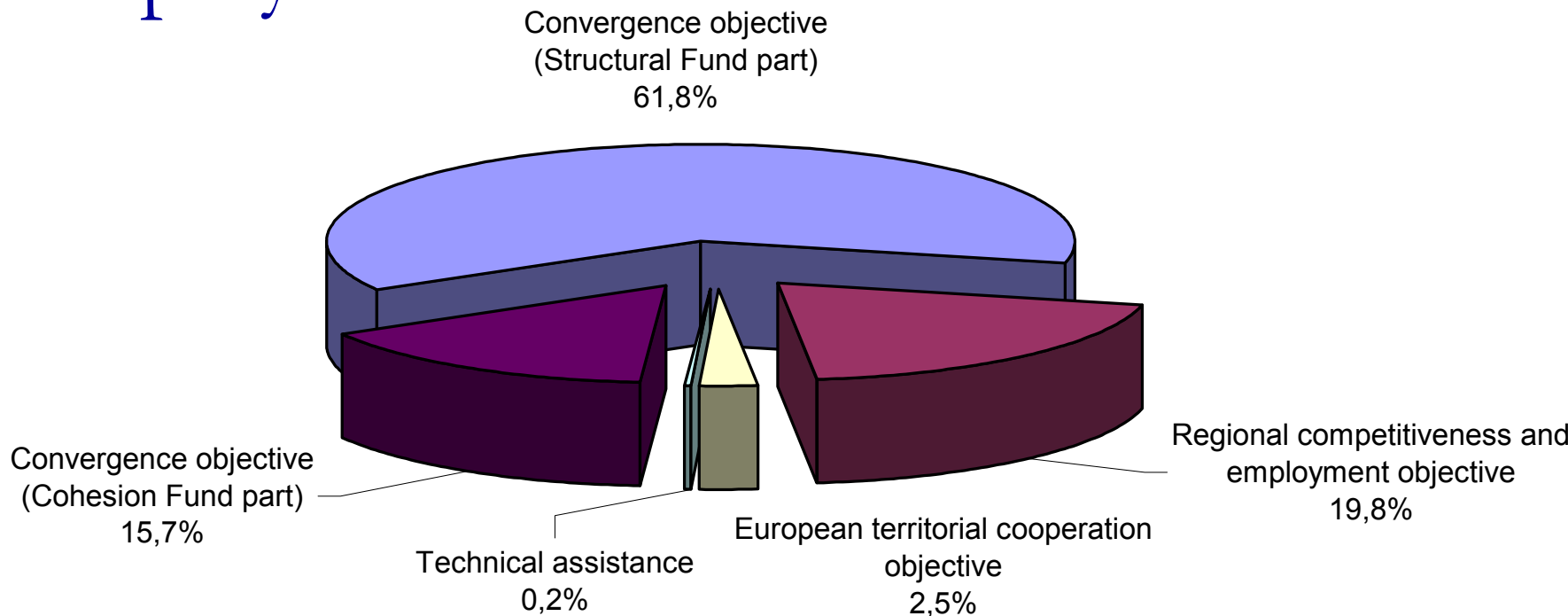
THE BROAD
CATEGORIES OF
EXPENDITURE OF
THE 2007 PDB






Heading 1a: Competitiveness for growth and employment



Competitiveness and innovation	388,06
Strengthening research and technological development	5.486,20
Promoting sustainable EU networks for transport and energy	1.009,00
Improving the quality of education and training	903,87
A social policy agenda to help European society to anticipate and manage change	156,80
Other actions and programmes	644,35
Decentralised agencies	207,82
Total	8.796,10

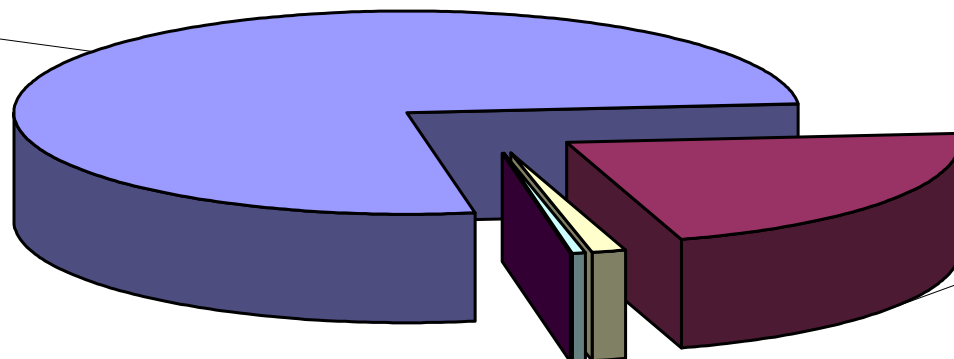
Heading 1b: Cohesion for growth and employment



STRUCTURAL FUNDS		38.364,73
	Convergence objective (Structural Fund part)	28.130,27
	Regional competitiveness and employment objective	8.997,92
	European territorial cooperation objective	1.140,66
	Technical assistance	95,89
COHESION FUND		7.121,83
	Convergence objective (Cohesion Fund part)	7.121,83
Total		45.486,56

Heading 2: Preservation and management of natural resources

Market related expenditure and direct payments
76,3%








Rural development
21,6%

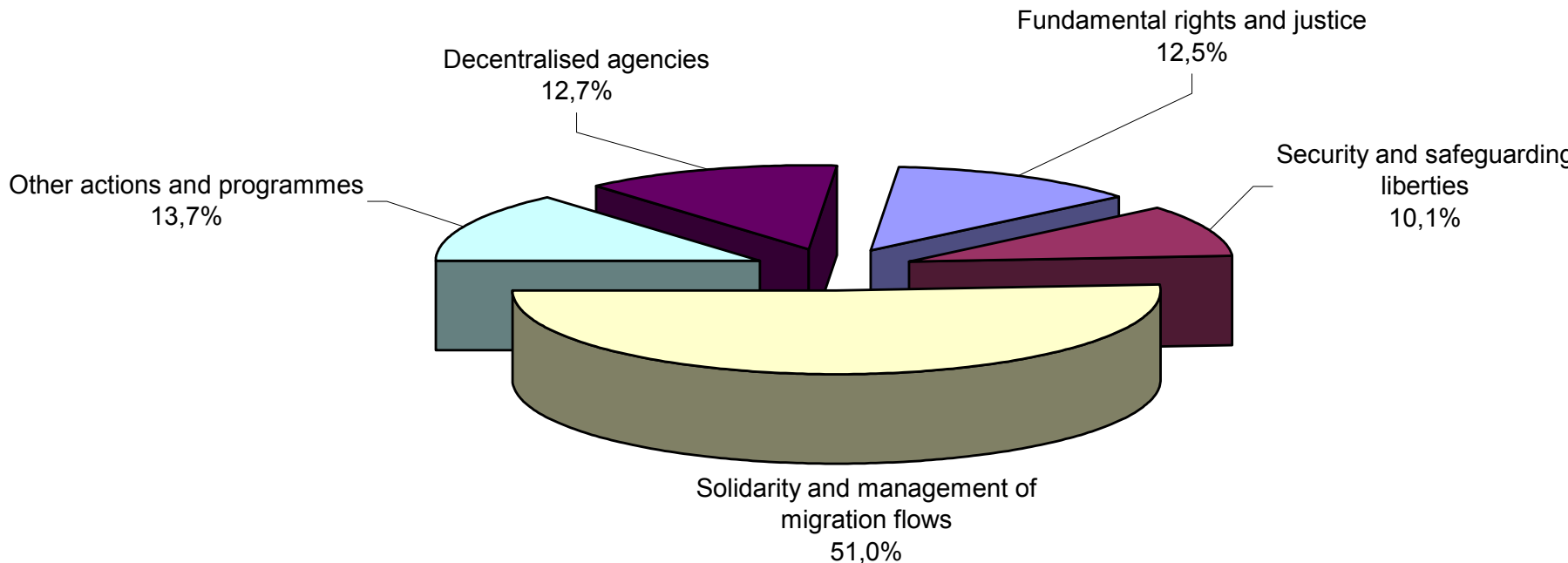
Other actions and programmes
(including decentralised agencies)
0,1%






Environment
0,4%

Fisheries
1,6%

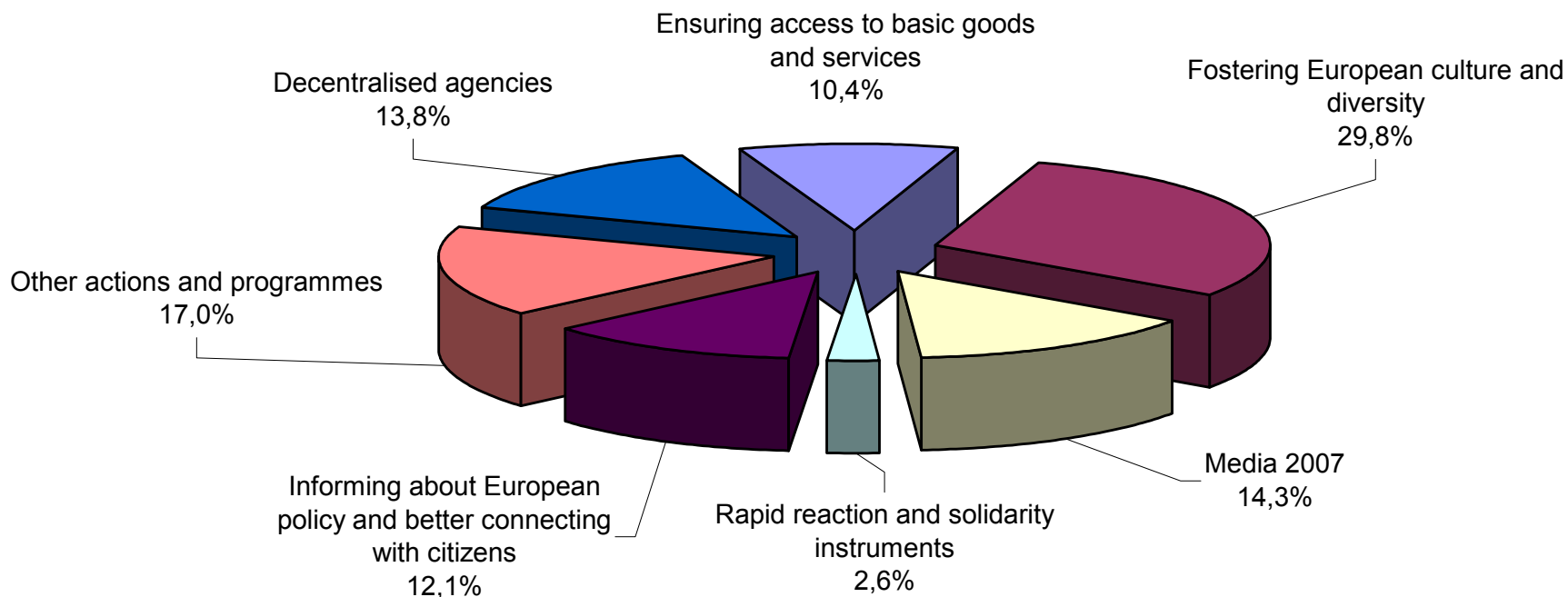
	Market related expenditure and direct payments	43.684,01
	Rural development	12.371,44
	Fisheries	887,56
	Environment	240,62
	Other actions and programmes (including decentralised agencies)	33,95
	Total	57.217,58

Heading 3a: Freedom, security and justice



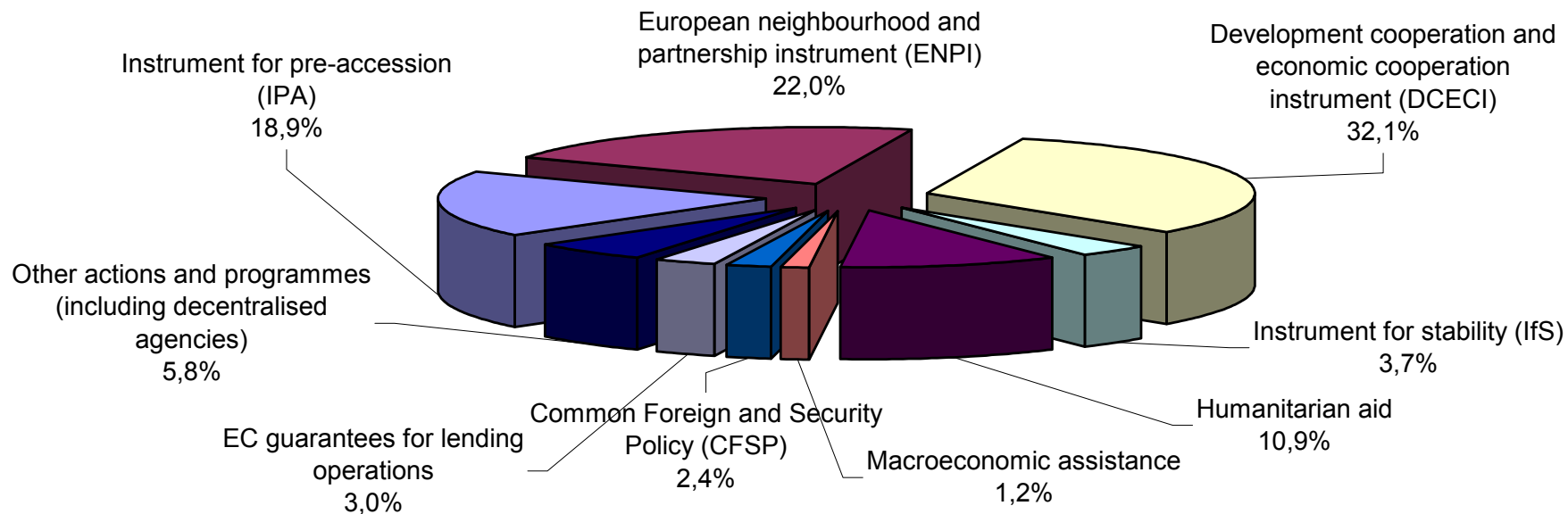
	Fundamental rights and justice	71,51
	Security and safeguarding liberties	57,49
	Solidarity and management of migration flows	291,30
	Other actions and programmes	78,40
	Decentralised agencies	72,64
Total		571,34

Heading 3b: Citizenship



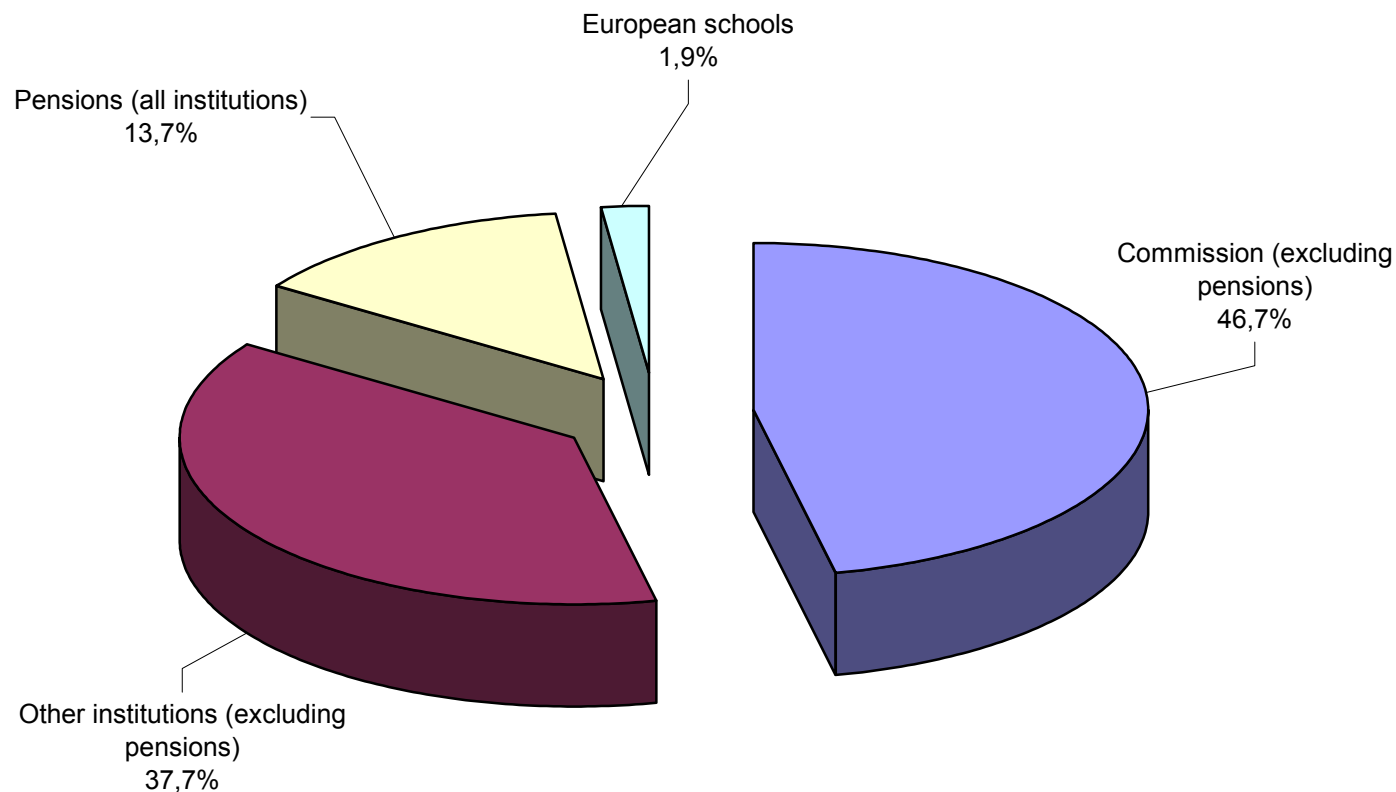
Ensuring access to basic goods and services	62,90
Fostering European culture and diversity	179,67
Media 2007	86,19
Rapid reaction and solidarity instruments	15,40
Informing about European policy and better connecting with citizens	72,67
Other actions and programmes	102,73
Decentralised agencies	83,50
Total	603,06





Heading 4: The UE as a global Partner



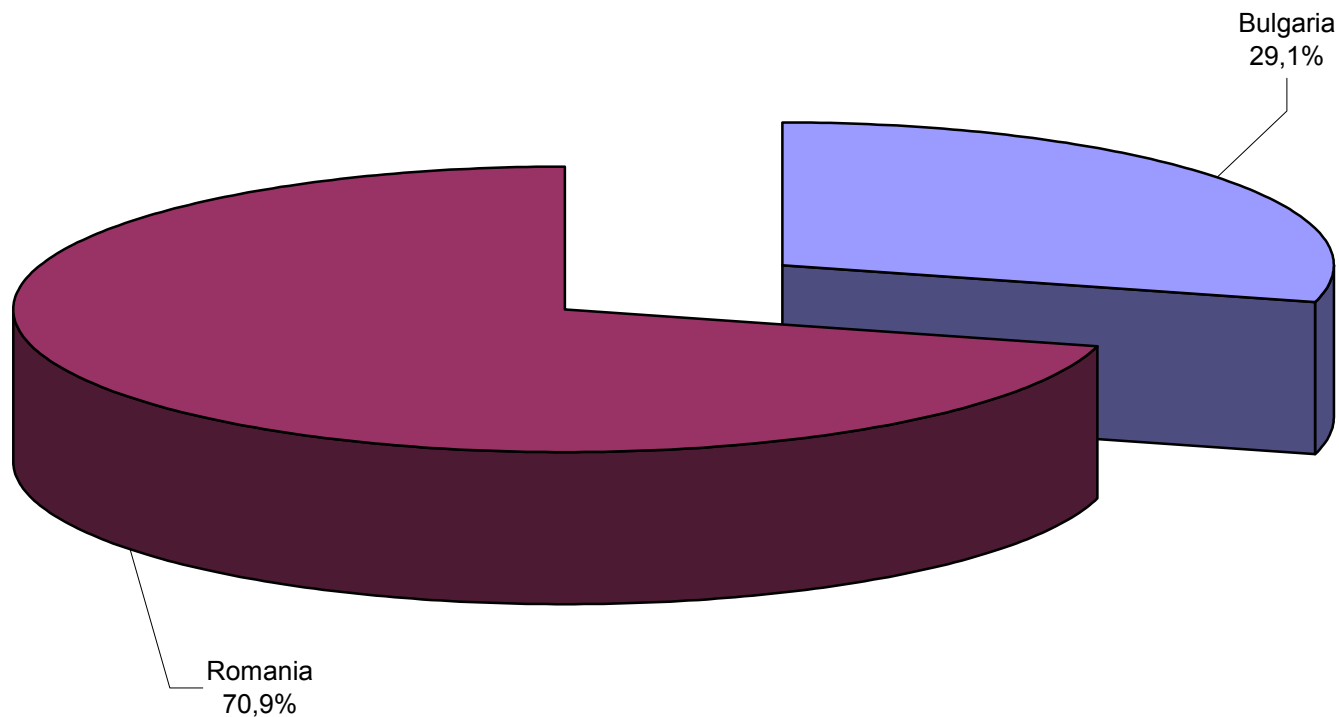
Instrument for pre-accession (IPA)	1.265,74
European neighbourhood and partnership instrument (ENPI)	1.474,86
Development cooperation and economic cooperation instrument (DCECI)	2.153,55
Instrument for stability (IfS)	246,18
Humanitarian aid	732,16
Macroeconomic assistance	79,59
Common Foreign and Security Policy (CFSP)	159,20
EC guarantees for lending operations	200,00
Other actions and programmes (including decentralised agencies)	391,25
Total	6.702,53

Heading 5: Administration



	Commission (excluding pensions)	3.270,34
	Other institutions (excluding pensions)	2.642,65
	Pensions (all institutions)	959,63
	European schools	129,67
Total		7.002,28

Heading 6: Compensation



 Bulgaria	129,26
 Romania	315,39
Total	444,65



4. The Financial Framework of the European Union

Explanatory screening with Croatia and Turkey
6 September 2006

Summary

4.1. Why a financial framework?

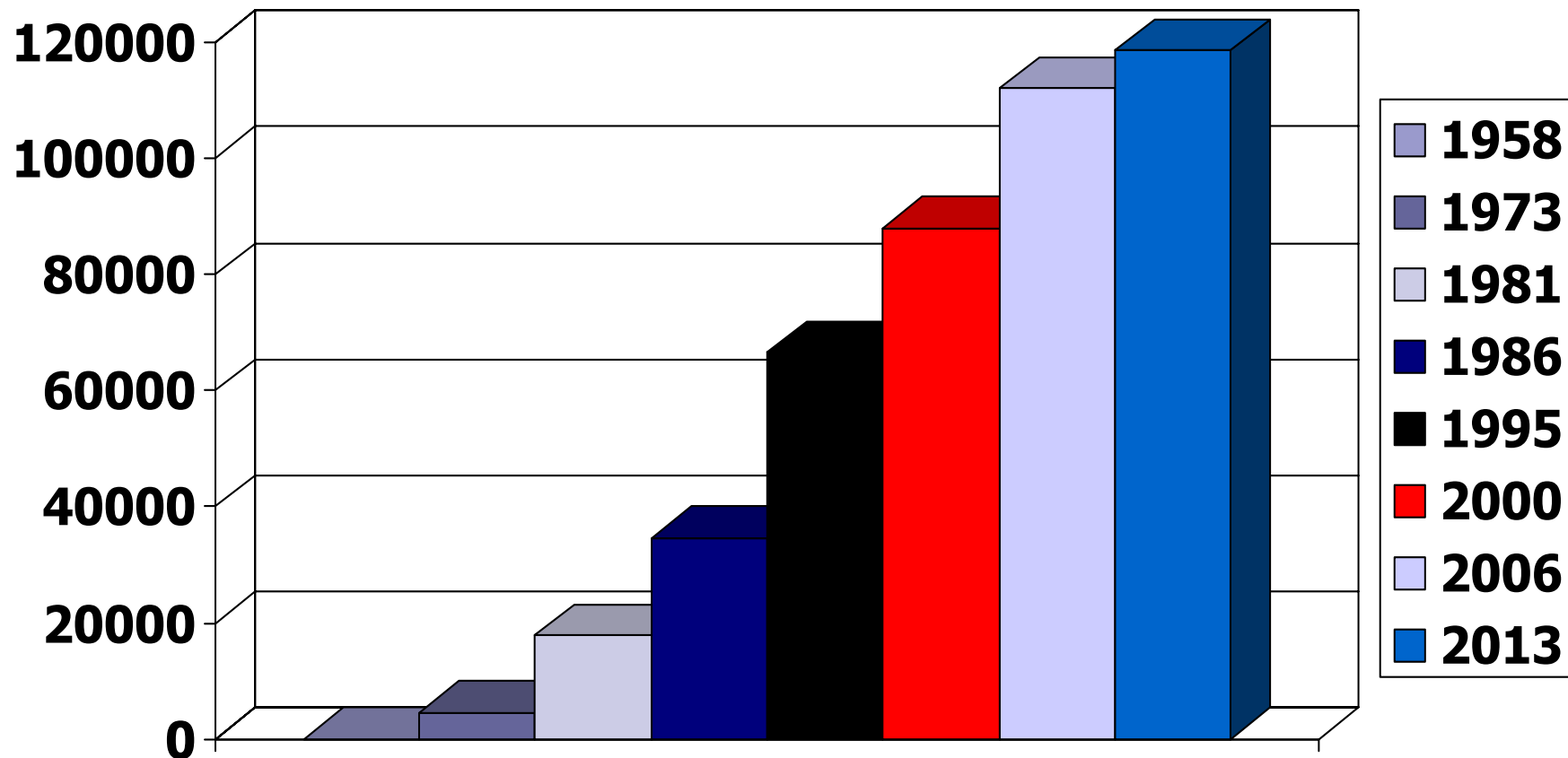
- evolution of the EU budget
- historical background of the financial framework

4.2. The financial framework 2007-2013

- new priorities, new structure
- negotiations in Council and Parliament
- the new Interinstitutional Agreement (IIA)

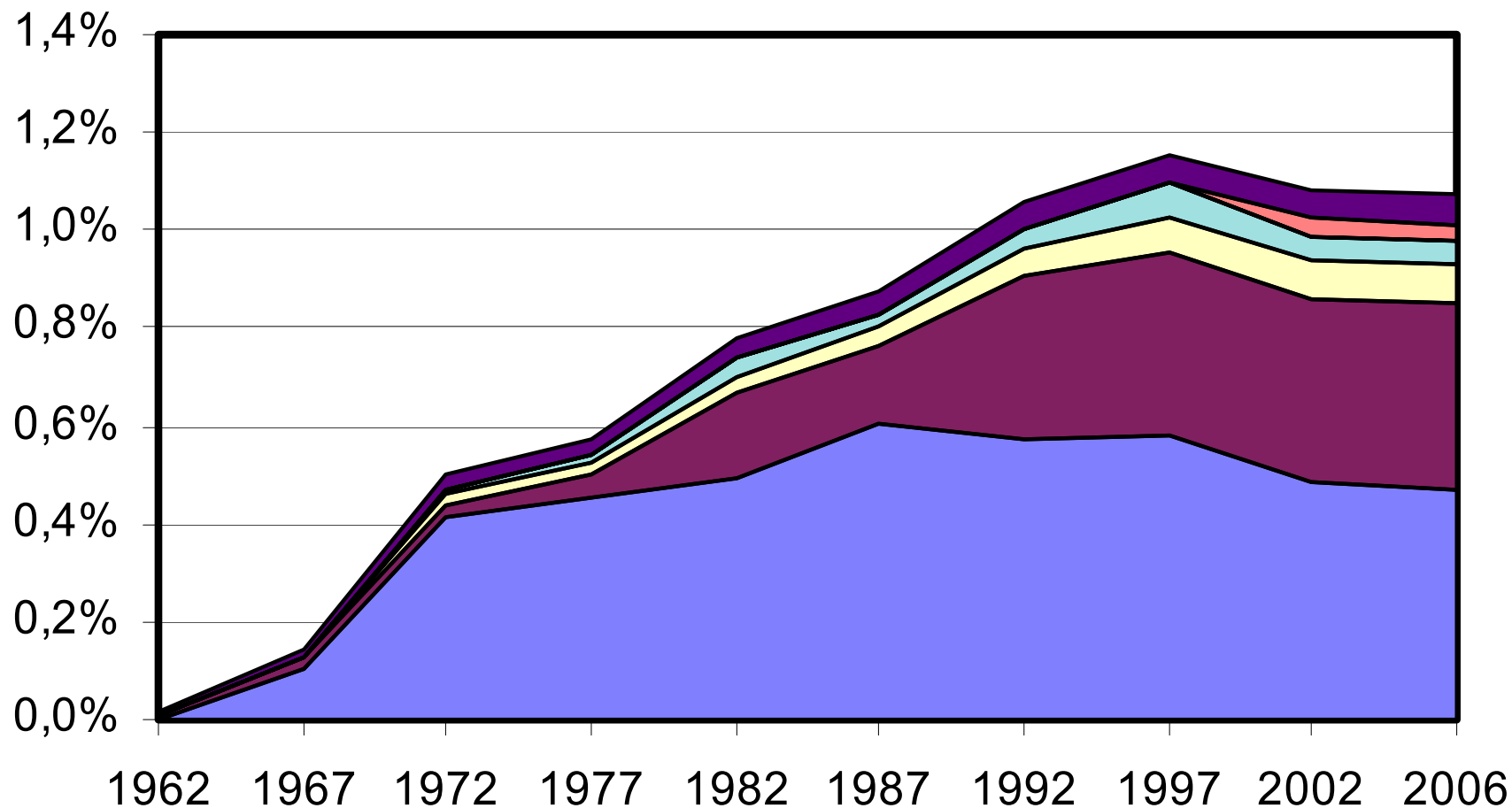
The evolution of the EU Budget

(million €, Payments appropriations)



Evolution of the Budget (in % of GDP)

■ Agriculture ■ Structural Actions ■ Internal Policies ■ External Actions ■ Pre-accession aid ■ Administration



Basic data of the 2006 budget

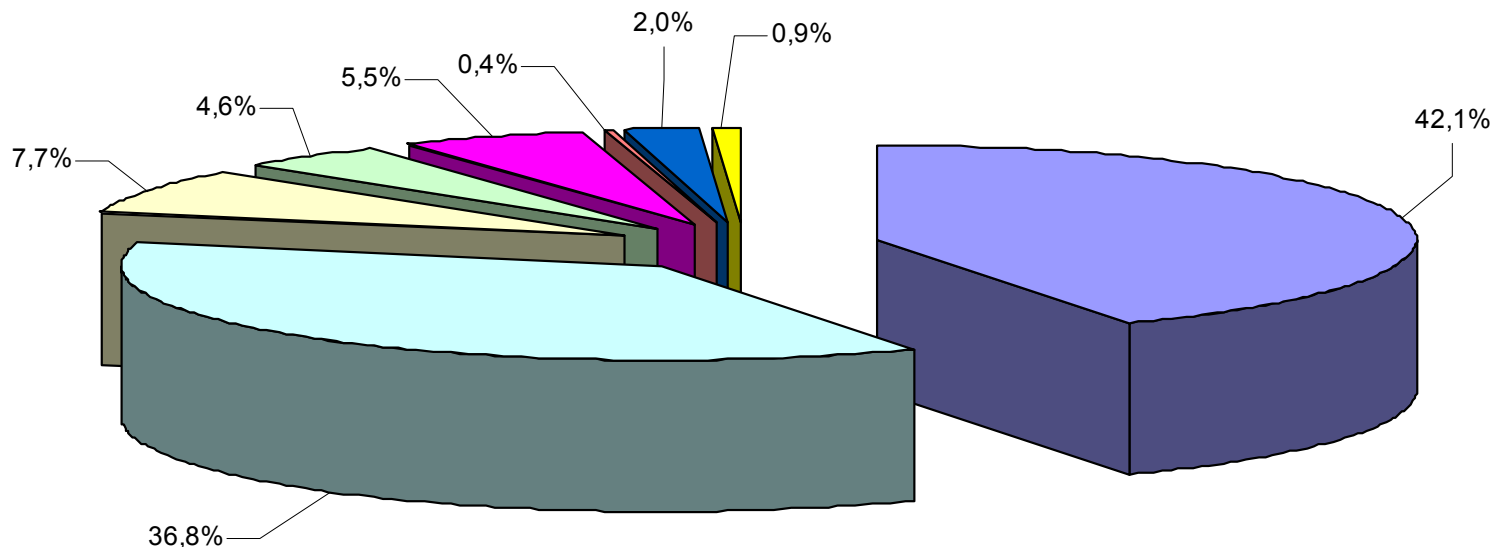
GLOBAL AMOUNT :

121,2 billion euros in commitments
and
112 billion euros in payments

In percentage of GNI,
≈ 1,09 % commitments
≈ 1,01 % payments



Budget 2006 - Global headings



	AGRICULTURE	51050,7
	STRUCTURAL ACTIONS	44555,0
	INTERNAL POLICIES	9372,7
	EXTERNAL ACTION	5.544,0
	ADMINISTRATION	6.656,4
	RESERVES	458,0
	PRE-ACCESSION STRATEGY	2.480,6
	COMPENSATION	1.073,5
Total		121.190,9

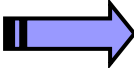
The MFF: historical background

- From 1975 onwards, the EP was given budgetary powers, but no real legislative powers. It therefore used the budget as a tool to assert its powers. This view clashed with the Council's who was at the time the sole legislative body.
- Consequence: many incidents occurred in the 80's. The EP occasionally rejected the draft budget, provisional-twelfths had to be used during several months (until June for the 1985 budget), and several actions were brought before the Court of Justice (1982, 1986).
- 2 major issues: the need for a legal basis to authorise spending and the classification of expenditure between CE (compulsory expenditure) and NCE (non-compulsory expenditure).

MFF=multiannual financial framework

EP=European Parliament

The MFF: an arena to resolve conflicts

- ▣ **Joint Declaration of 30 June 1982:** ancestor of the MFF. This Declaration asserts that a separate legal basis is required for the use of appropriations for “any significant action”.
 - ▣ The need for a stable Financial Framework became urgent in **1988** to **avoid recurring crises** (between Council and EP)
 - ▣ Since then the MFF (or financial perspective) has been adopted by the EP, the Council and the Commission and enshrined in an **Interinstitutional Agreement (IIA)**.
 - ▣ MFF sets the **political priorities** for Europe for a given period.
-  MFF has been successful in resolving the conflicts between the 3 main institutions: the 90's and 2000's saw peaceful budgetary procedures compared to the 80's.

What is the Interinstitutional Agreement?

- ☐ A set of mutually agreed rules between the European Parliament, the Council and the Commission (not in the Treaty)
- ☐ A planning instrument for the medium-term (5 to 7 years) to ease implementation of programmes
- ☐ Allows predictability of EU expenditure
- ☐ The IIA contains the table of the financial framework itself in its Annex I. This table defines maximum amounts (ceilings) for broad categories of expenditure (headings)

History of Financial Framework

1988-1992: Delors Package I (5 years)

First Inter-institutional Agreement

1993-1999: Delors Package II (7 years)

Priorities: cohesion policy (creation of the Cohesion Fund), preparations for the EURO, Common Agricultural Policy reform (introduction of direct payments)

2000-2006: AGENDA 2000 (7 years)

*Priority: Preparation for enlargement
Stabilization of EU expenditure in real terms*

Basic concepts: ceilings, budget, outturn

(in % of EU Gross National Income)

<u>4 levels</u>	Payment Appropriations		Commitment Appropriations	
	2006	2013	2006	2013
Own resources ceiling	1.24	1.24	1.31	1.31
Financial framework ceiling	1.08	0.94	1.12	1.01
Budget	1.01	-	1.09	-
Outturn (2004)	0.97	-	1.05	-

Lessons from the past I

- **The MFF has been successful.** It has ensured a smooth conduct of the budgetary procedure:
- There was an orderly progress of the expenditure (controlling the growth of expenditure/containment)
- Each budget was adopted in time: major improvement in the budgetary procedure and budget management
- Adequate own resources were available since the introduction of the GNP resource as a balancing item.



The MFF was intended to be 'institutionalised' in the draft Constitution as the 'multiannual financial framework'.

Lessons from the past II

New problems have emerged:

☐ **Flexibility**

- ☐ The **classification of expenditure** remains unsolved: the 1995 budget was cancelled by the CJ after the EP had unilaterally modified the classification of some budget lines.
- ☐ The issue of **net contributions** has become more and more acute. It took 2 years to negotiate the MFFs for 2000-2006 and 2007-2013.
- ☐ The European Development Fund budget remains outside the Community budget.



THE FINANCIAL
FRAMEWORK
2007-2013

Priorities defined by the Commission

2007-2013

- ▣ A dynamic **knowledge-based economy** geared towards growth
- ▣ **Greater cohesion** in the context of an enlarged Union
- ▣ Preserving the EU's **natural resources**, agriculture, fisheries and environment
- ▣ Developing the area of Freedom, Security and Justice and European citizenship
- ▣ Developing the role of the Union as a **global player**

Negotiations in Council/1

the 'group-of-six' proposal on 1%

- ▣ **December 2003**: 6 Member States request that the future financial framework should not be higher than 1% of EU GNI on average. DE/FR/NL/AT/SE & UK
- ▣ The initial letter does not specify if 1% refers to **commitment or payment appropriations**, which leaves a margin for manoeuvre during the negotiations.
- ▣ If 1% refers to payments this would mean a **€130 billion cut compared with the Commission proposal**.
- ▣ If 1% refers to commitments, the cut would grow to **€210 billion**.

Negotiations in Council/2

What did 1% mean?

- ▮ 1% was not a **freeze** of the budget but a **substantial cut** in the current budget:
€9 billion cut from 2006 to 2007, with Bulgaria and Romania joining in the meanwhile;
In total a real cut of 29% on all the other Commission proposals except for agriculture.
- ▮ The cuts would be in the most ambitious Commission proposals (competitiveness, security and citizenship, external dimension)

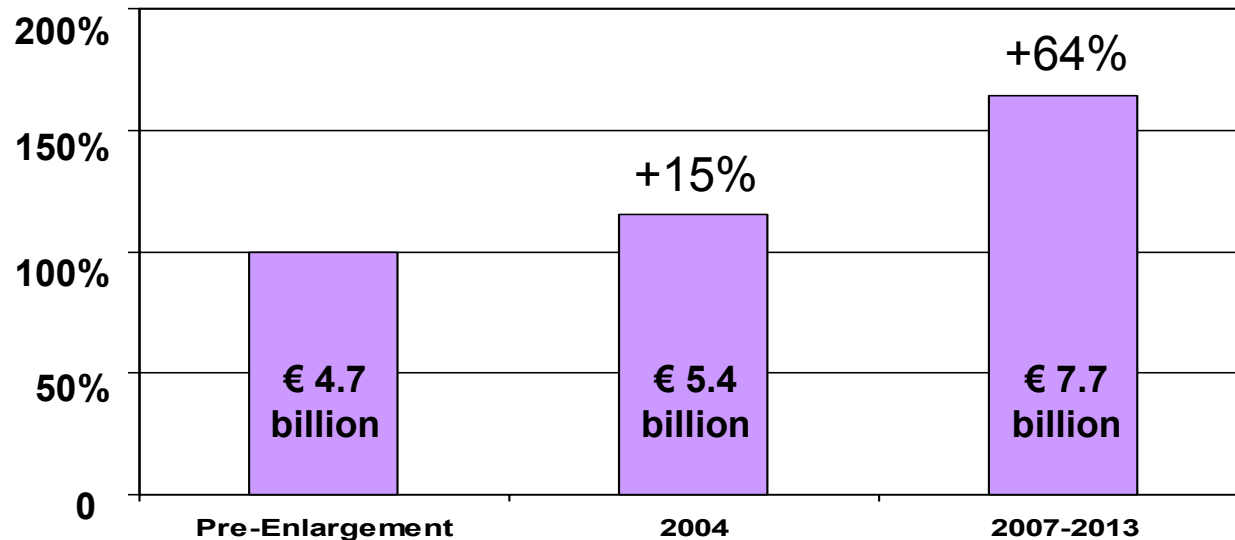
Negotiations in Council/3

- 2004: Irish and Dutch Presidencies. Examination of the Commission proposals in details

- **2005**: real negotiations start under the Luxembourg Presidency.

- **17 June 2005, European Council fails to agree:**
 - ☞ Budget reform, including CAP;
 - ☞ Some MS fight to maintain previous level of structural assistance
 - ☞ Own-resources system, level of national contributions.

Enlargement increases the UK correction



If the current system had remained unchanged...

...the correction would have increased 3 times more rapidly than EU expenditure

...in 2003, agricultural expenditure accounted for 40% of the correction. In 2013, 45% would have come from enlargement expenditure

December 2005 European Council

▮ **16 December 2005**: end of UK Presidency. European Council agrees on a financial framework table for 2007-2013, opening the way for negotiations with the European Parliament.

▮ The agreement notably concerns:

- ☞ the **adjustment of the UK correction** to take account of enlargement;
- ☞ temporary measures to reduce the contributions of some Member States: **AT, DE, NL & SE**;
- ☞ a future **general review** foreseen in 2008-2009, concerning both expenditure and the own resources system

Interinstitutional negotiations I

- Between January and April 2006, EP, Council and Commission met in trilogues to negotiate the IIA.
- EP defined its position in June 2005 on the basis of the work of a temporary Committee specially created for this purpose.
- Council adopted its position in December 2005
- Commission played the role of a mediator and took initiatives to overcome the obstacles: revised proposals on the IIA, supporting documents, etc.
- 4 April 2006:** compromise on the IIA and on the table
- 17 May 2006:** adoption by the EP in plenary session, followed by the official signature by the three institutions.

Interinstitutional negotiations II

■ Gains of the EP in figures:

1a. Competitiveness for growth and employment	+2.1 billion
1b. Cohesion for growth and employment	+0.3 billion
2. Preservation and management of natural resources	+0.1 billion
3b. Citizenship	+0.5 billion
4. The EU as a global player	+1 billion
Total commitment appropriations	+4 billion

■ Other gains: increased scrutiny on financial management and specific policies (external policy)

Final agreement summary 2007-2013

☰ **4 April 2006:** Council, EP and Commission agree on the new Interinstitutional Agreement, which contains the table of the financial framework.

☰ **Commitment appropriations**

☞ EUR 864 316 million

☞ 1.05 % of EU-27 GNI

☞ 0,9% real annual growth over the period 2007-2013

☰ **Payment appropriations**

☞ EUR 820 780 million

☞ 1.00 % of EU GNI

☞ 0.4% real annual growth over the period 2007-2013

The growth of overall EU spending will be lower than EU-27 GNI growth which is estimated at 2.3 % (annual average) over the period 2007-2013

Final Agreement: qualitative elements

▪ **Review:**

- Possibility for the Commission to present a report on the IIA if it deems necessary;
- Possibility for the newly elected Parliament to assess the functioning of the IIA by the end of 2009 on the basis of a report to be presented by the Commission

▪ **Better political and financial control of Common Foreign and Security Policy (CFSP):**

Council's duty to inform the EP on CFSP is increased.

▪ **Freedom, Security and Justice:**

Council and Commission accept a unilateral EP declaration to discuss at each Triologue about the 2nd pillar (Justice and Home Affairs)

▪ **Certification (internal control):**

Increased commitment of the Member States to ensure the sound financial management of the EU funds they manage (agricultural and structural funds).

▪ **Financial Regulation:**

Inclusion in the IIA of a reference to principles that should simplify the access to EU funds for potential beneficiaries

▪ **Financial programming:**

The joint declaration of July 2000 is now integrated in the IIA (part III). It will allow the Committee on Budgets to follow-up with more accuracy the impact of the legislation in force.

The financial framework 2007–2013

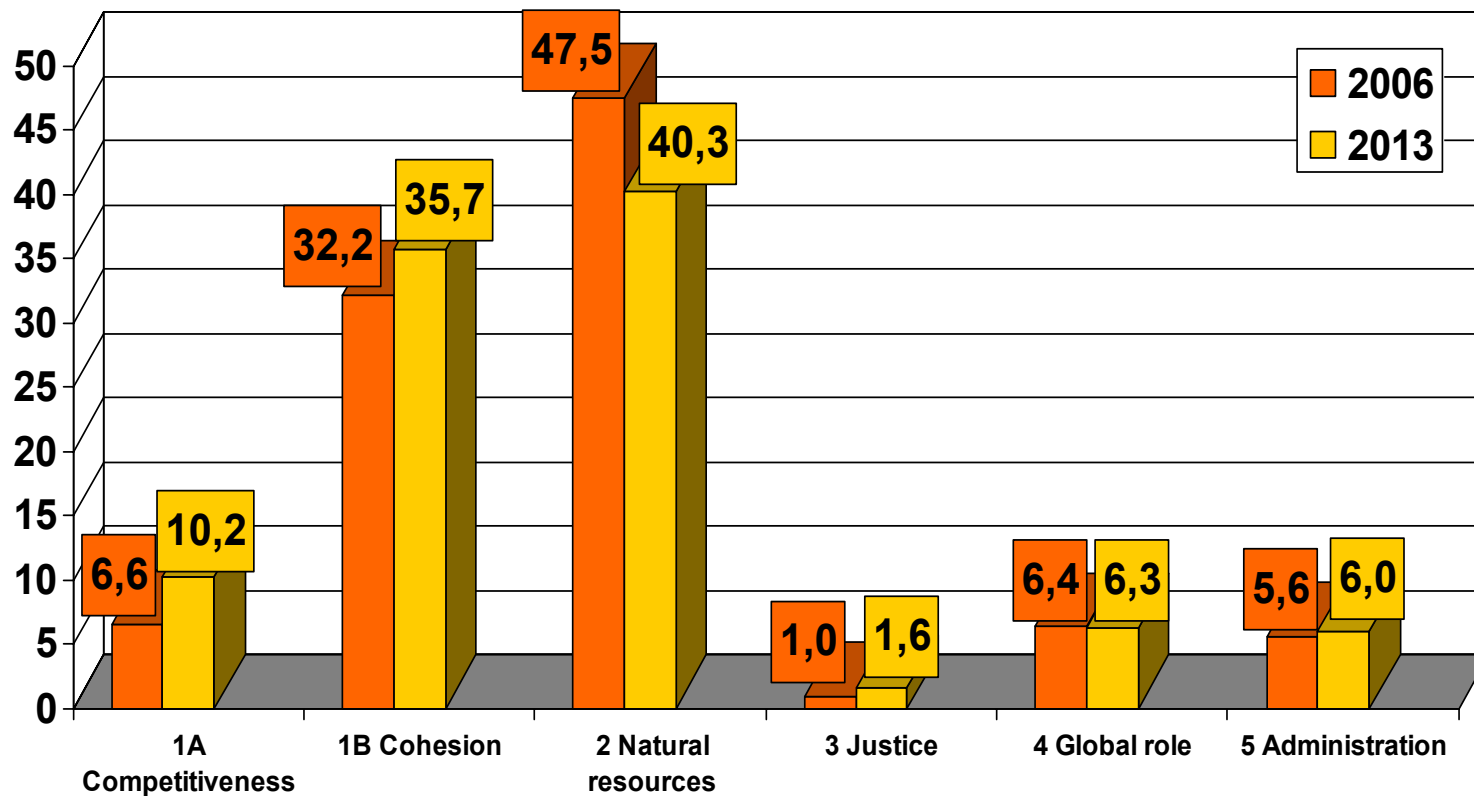
COMMITMENT APPROPRIATIONS	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	51.267	52.415	53.616	54.294	55.368	56.876	58.303	382.139
1a Competitiveness for Growth and Employment	8.404	9.097	9.754	10.434	11.295	12.153	12.961	74.098
1b Cohesion for Growth and Employment	42.863	43.318	43.862	43.860	44.073	44.723	45.342	308.041
2. Preservation and Management of Natural Resources	54.985	54.322	53.666	53.035	52.400	51.775	51.161	371.344
of which: market related expenditure and direct payments	43.120	42.697	42.279	41.864	41.453	41.047	40.645	293.105
3. Citizenship, freedom, security and justice	1.199	1.258	1.380	1.503	1.645	1.797	1.988	10.770
3a Freedom, Security and Justice	600	690	790	910	1.050	1.200	1.390	6.630
3b Citizenship	599	568	590	593	595	597	598	4.140
4. EU as a global player	6.199	6.469	6.739	7.009	7.339	7.679	8.029	49.463
5. Administration ⁽¹⁾	6.633	6.818	6.973	7.111	7.255	7.400	7.610	49.800
6. Compensations	419	191	190					800
TOTAL COMMITMENT APPROPRIATIONS	120.702	121.473	122.564	122.952	124.007	125.527	127.091	864.316
as a percentage of GNI	1,10%	1,08%	1,07%	1,04%	1,03%	1,02%	1,01%	1,048%

TOTAL PAYMENT APPROPRIATIONS	116.650	119.620	111.990	118.280	115.860	119.410	118.970	820.780
as a percentage of GNI	1,06%	1,06%	0,97%	1,00%	0,96%	0,97%	0,94%	1,00%
Margin available	0,18%	0,18%	0,27%	0,24%	0,28%	0,27%	0,30%	0,24%
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) The expenditure on pensions included under the ceiling for this heading is calculated net of the staff contributions to the relevant scheme, within the limit of € 500 million at 2004 prices for the period 2007-2013.

How the money will be spent?

Changes in structure 2006/2013, in %



Comparing the Commission proposal, EP resolution, Council negotiating boxes and final agreement

Global commitment level for the 2007-2013 period

COMMITMENT APPROPRIATIONS <i>(in million of €, at 2004 prices)</i>	Commission Proposal	EP Resolution *	Lux. final NB		December 2005 EC			Final agreement	
			Proposed level	Cuts vs COM	Proposed level	Cuts vs Lux. NB	Cuts vs COM	Level	Cuts COM
a. Competitiveness	121.687	110.600	72.010	-49.677	72.120	110	-49.567	74.098	-47.5
b. Cohesion	336.308	336.330	309.594	-26.714	307.619	-1.975	-28.689	308.041	-28.2
2. Natural resources	400.294	392.306	377.800	-22.494	371.244	-6.556	-29.050	371.344	-28.9
of which Common Agricultural Policy	301.074	293.105	295.105	-5.969	293.105	-2.000	-7.969	293.105	-7.9
3. Citizenship, freedom, security and justice	14.724	16.053	11.000	-3.724	10.270	-730	-4.454	10.770	-3.9
3A. Freedom, security and justice	9.210	9.321	6.630	-2.580	6.630		-2.580	6.630	-2.5
3B. Citizenship	5.514	6.732	4.370	-1.144	3.640	-730	-1.874	4.140	-1.3
4. EU as global player (excl. EDF and Emergency Aid)	61.223	62.436	48.463	-12.760	48.463		-12.760	49.463	-11.7
5. Total administrative expenditure	57.670	54.765	50.300	-7.370	50.300		-7.370	49.800	-7.8
6. Compensations BG/ RO	800	800	800		800			800	
Total commitments*	992.706	973.290	869.967	-122.739	860.816	-9.151	-131.890	864.316	-128.3
in % of EU-27 GNI	1,20%	1,18%	1,06%		1,045%			1,05%	

Lessons from the latest negotiations I

New elements of the financial framework

- focus on some political priorities: competitiveness, security and justice, citizenship, external dimension
- new structure (6 headings instead of 8): less rigidity.
- agriculture now grouped together with fisheries and environment: coherence, more efficiency in the allocation of funds.
- EU internal security: increased cooperation in judicial matters, asylum and immigration policies; fight against crime and terrorism.
- external dimension: focus on the 'neighborhood' dimension (Mediterranean area, Central Asia and Russia); integration of pre-accession policy; simplification of instruments. Increased funding for Common Foreign and Security policy (CFSP).
- European Globalisation adjustment fund (EGF).

Lessons from the latest negotiations II

the role of the EP strengthened?

- For the first time, the EP has adopted a negotiating position prior to the Council's conclusions.
- The EP has insisted on negotiating the qualitative elements despite the Council's reluctance in order to secure the improvement of the quality of the implementation of the EU budget.
- The EP has focused on an approach based on programmes (citizens approach) rather than the Council's (governmental) approach on ceilings and percentages. It has obtained that the additional amount be allocated to its priorities and directly to programmes.

Lessons from the latest negotiations III

A nonetheless conservative MFF...

- ▣ the financial package foresees **no strategic change**
- ▣ cohesion: more and more **ad-hoc** measures and exceptions. Increased difficulty for proper financial control
- ▣ more instruments **outside** the financial framework:
 - Flexibility instrument
 - European Union solidarity fund
 - Emergency aid reserve
 - European globalisation adjustment fund
 - European Development fund (EDF)

The review 2008-2009

The European Council of December 2005 invited the Commission to undertake a full-ranging review covering:

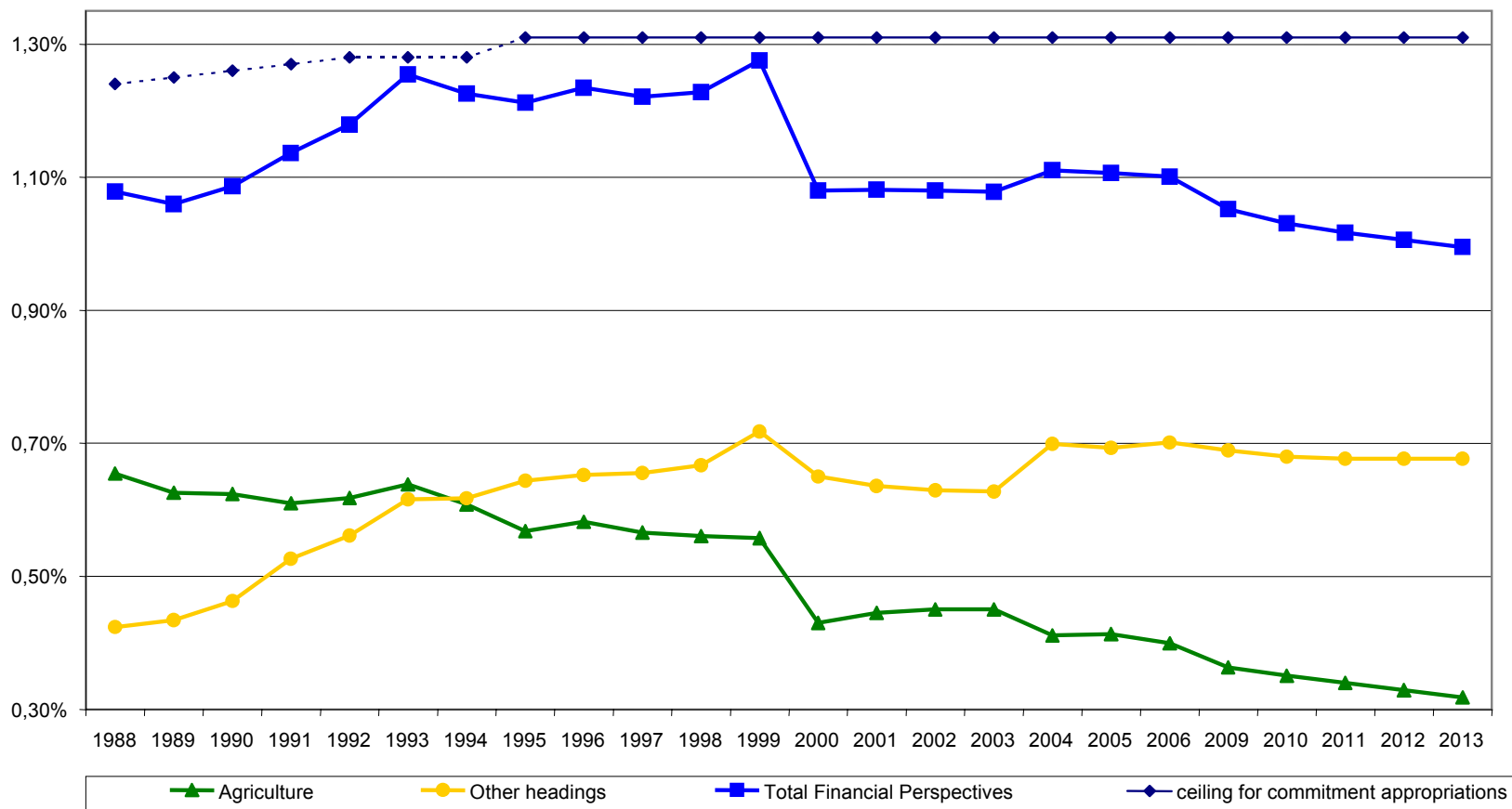
- ☞ all aspects of EU spending, including the Common Agricultural Policy;
- ☞ all aspects of resources, including the UK correction

The review:

- ☞ implies that the MFF 2007-2013 is not fully satisfactory for the Member States
- ☞ shows a political will to:
 - ☞ tackle the challenges ahead, to find an adequacy between the financial means and the ambitions of the EU;
 - ☞ address the question of net contributions
 - ☞ take the drama out of the future negotiations

Long-term evolution of the EU budget

Financial Framework - Ceilings for Commitments
in % of GNI



What happens after 2013?

If there is no institutional changes, the (new) Commission will present its proposal for the financial framework after 2013 before 1 July 2011

For further information

www.europa.eu.int/comm/dgs/budget/index_en.htm

www.europa.eu.int/comm/financial_perspective/index_en.htm

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