Multiannual financial framework for the years 2007-2013

2010/0048(APP) - 03/03/2010 - Preparatory document

PURPOSE: to propose a new multiannual financial framework (2007-2013) revising and codifying the current financial framework taking into account the entry into force of the Treaty of Lisbon.

PROPOSED ACT: Council Regulation.

BACKGROUND: the Treaty on the Functioning of the European Union (TFEU) stipulates that a unanimously adopted Council Regulation shall lay down a multiannual financial framework. The financial framework shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations and it shall lay down any other provisions required for the annual budgetary procedure to run smoothly.

The practice to adopt a multiannual financial framework and provisions on the interinstitutional cooperation and budgetary discipline started more than 20 years ago. It has immensely improved and simplified the annual budget procedure and cooperation between institutions and, as a consequence, increased the budgetary discipline.

The current multiannual financial framework for 2007-2013 was agreed between institutions in May 2006 and is laid down in the Interinstitutional Agreement on budgetary discipline and sound financial management (the IIA). With the entry into force of the TFEU, the relevant provisions of the current IIA need to be codified into a Council Regulation laying down the multiannual financial framework (the MFF regulation). This codification represents **an alignment of the provisions of the current IIA with the requirements of the Treaty**. However, this alignment has to take into account the change of instrument, i. e. a regulation instead of an IIA. For legal reasons, it is, however, neither possible nor feasible to transpose all the provisions of the current IIA into the MFF regulation. Some of the provisions of the current IIA became obsolete with the entry into force of the Lisbon Treaty, many shall be incorporated in this MFF regulation, and some in the revised Financial Regulation.

A new IIA is still necessary for those provisions that do not fit into either of these two regulations and incorporate them into the framework of a revised IIA (provisions on interinstitutional cooperation, in particular).

Taking into account all the relevant provisions and requirements of the Treaty, the current proposal seeks to focus on the financial framework in the strictest sense (e.g. annual adjustments of the financial framework, revision of the financial framework…). Some of the other provisions previously in the IIA have become **obsolete** (i) provisions related to the distinction between compulsory and non-compulsory expenditure and the maximum rate of increase, (ii) the classification of expenditure, (iii) significant parts of inter-institutional cooperation are either inappropriate for a regulation of this type and should fall within the financial regulation (rather than in the MFF regulation) or in the IIA.

The remaining provisions – mainly issues relating to pure interinstitutional cooperation – are included in a new IIA which is the subject of a separate procedure.

For the sake of integrity, the draft MFF Regulation and the new IIA are presented together and should be negotiated and agreed as one integral package.

IMPACT ASSESSMENT: no impact assessment has been undertaken.

LEGAL BASE: Article 312 of the Treaty on the Functioning of the European Union (TFEU) – special legislative procedure.

CONTENT: since 1988, the multiannual financial framework and related provisions have been laid down in interinstitutional agreements. The multiannual financial framework for 2007-2013 was established by the Interinstitutional Agreement of 17 May 2006 (the IIA). With the entry into force of the TFEU, the practice of fixing the financial framework by interinstitutional agreement has to be reviewed and the multiannual financial framework has to be laid down in the form of a regulation. This is the purpose of this proposal which integrates the appropriate provisions of the old IIA and takes into account, where required, of the amendments that are required by the new Treaty.

As a result, the IIA is to be amended as follows:

- **maintenance of the current financial framework:** the financial framework has not been changed;
- **an obligation to respect the ceilings on expenditures of budgetary heading s and the ceilings on own resources:** as before, the annual ceilings are retained, as well as the requirement for the institutions to respect these ceilings during the budgetary procedure. Should the ceilings for payment appropriations result in a call-in rate for own resources exceeding the own resources ceiling, the ceilings of the financial framework have to be adjusted;
- **the possibility to exceed the ceilings under certain conditions:** provision is made for the possibility to exceed the ceilings, if necessary, **when the instruments not included in the financial framework are mobilised,** i.e. the Emergency Aid Reserve, the Solidarity Fund, the Flexibility Instrument and the European Globalisation Adjustment Fund (these instruments are now defined in the new IIA). They are not included in the financial framework and ensure that financing in specific circumstances is provided in excess of the ceilings of the financial framework, if it is required. They increase the flexibility of the financial framework and are mobilised jointly by the two arms of budgetary authority;
- **rules on annual technical adjustment of the financial framework are unchanged:** the rules agreed regarding the annual technical adjustment of the financial framework are unchanged (revaluation of the financial framework at year n+1 prices and on the basis of a fixed deflator of 2% a year);
- **adjustment of cohesion policy envelopes**: the wording in this part has only been slightly changed. The reference to the current IIA was replaced with the reference to the period when the cohesion policy envelopes were agreed. The adjustment of cohesion policy envelopes will be made in the technical adjustment for the year 2011, to be presented in **April 2010**. This adjustment will take place if it is established that cumulated Gross Domestic Product (GDP) of any Member State for the years 2007-2009 has diverged by more than +/- 5 % from the cumulated GDP estimated in 2005 for the establishment of cohesion policy envelopes for Member States for the period 2007-2013;
- **adjustments related to excessive government deficit**: the wording of these articles has either not changed or only changed very marginally (reference to the voting rules for the adaptation of implementation conditions, in particular);
- **revision of the financial framework**: the revisions of the financial framework are adopted according to the same rules as the regulation itself. In order to retain the current level of flexibility of the financial framework as regards the revisions below the threshold of 0.03% of GNI, paragraph 3 stipulates that the financial framework may be adapted, if need be, and **within the threshold of 0.03%**, in the framework of the annual budgetary procedure. This does not change the current practice where revisions below the same threshold were **jointly decided by Parliament and Council**, with Council deciding by qualified majority. It should be noted that the rules regarding the revision of the financial framework in the event of a revision of the Treaty or enlargement have not been revised;

- **interinstitutional cooperation in the budgetary procedure**: this article lays down the general principles in regard to interinstitutional cooperation in the context of the budgetary procedure: i) the principle of good faith between the institutions throughout the procedure with a view to reconciling their positions; ii) appropriate interinstitutional contacts to monitor the progress of the work; iii) coordination of their respective calendars of work to enable proceedings to be conducted in a coherent and convergent fashion; iv) the retention of the principle of interinstitutional trilogues at all stages of the procedure to facilitate agreement on the budget. The technical details of the cooperation are included in the new IIA;
- **financing of the CFSP:** the financing of the Common Foreign and Security Policy has a special standing during the budgetary procedure. In order to maintain the current balance and to help the budgetary procedure to run smoothly, the basic rules (the amount entered in one budget chapter covering the real predictable needs, no funds entered in a reserve) and the amount agreed for the financing of the CFSP (without change) are introduced in the MFF Regulation. The total amount of operating CFSP expenditure shall be entered entirely in one budget chapter, entitled CFSP. That amount shall cover the real predictable needs, assessed in the framework of the establishment of the draft budget, on the basis of forecasts drawn up annually by the High Representative of the Union for Foreign Affairs and Security Policy, and a reasonable margin for unforeseen actions. No funds may be entered in a reserve. An amount of at least **EUR 1 740 million** shall be available for the CFSP over the period 2007-2013;
- **consequences of the absence of a financial framework:** overall, the rules relating to the duration of the financial framework and the consequences of the absence of a financial framework are retained. The obligation for the Commission to present a new financial framework before **July 2011** is also maintained. Minor changes have been made to align with the wording of the TFEU;
- **entry into force:** it is planned that the new IIA will enter into force on the same day as this proposed regulation.

BUDGETARY IMPACT: the proposal has no impact on the EU's budget. It corresponds to the financial framework as revised for the second phase of the European Economic Recovery Plan (EERP), adopted by the Council and Parliament on 17 December 2009.