

Multiannual financial framework for the years 2014-2020

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PURPOSE: to lay down the multiannual financial framework for the years 2014-2020.

PROPOSED ACT: Council Regulation

BACKGROUND: the Commission presented, on 3 March 2010, proposals for a [Council Regulation](#) laying down the multiannual financial framework (MFF) for 2007-2013 and for a [new Interinstitutional Agreement \(IIA\)](#) on cooperation in budgetary matters. These two proposals, once adopted, will replace the [current IIA](#) and bring the provisions on the 2007-2013 financial framework and on cooperation of the institutions in the budgetary procedure in line with the Treaty. Meanwhile, the provisions of the current IIA that are not rendered obsolete by the Treaty remain valid.

These proposals deal with the new elements as compared with the March 2010 proposals, for both the proposal for a Regulation laying down the MFF for the years 2014 to 2020 and the [draft IIA](#) on cooperation in budgetary matters and sound financial management. This proposal for the MFF Regulation accompanied by the draft IIA represents the legal transposition of the Commission Communication on "[A Budget for Europe 2020](#)". It will be complemented by a proposal amending the Commission's proposal for a Regulation on the financial rules applicable to the annual budget of the Union in order to introduce a few new provisions which are part of the package of proposals for the 2014-2020 financial framework.

A financial framework that is flexible: the financial framework must provide for adequate levels of flexibility to allow for effective resources allocation and a swift Union response to unforeseen circumstances. Recent experience demonstrates that challenges resulting from unforeseen events with global repercussions have reached a new quality. The Union will increasingly be exposed to the effects of globalisation of the economy and society, to climate change, energy dependency, migratory pressure and other global challenges, most of which in areas for which the Lisbon Treaty has increased the Union's responsibility and role. This is why the Commission is proposing a financial framework that seeks to strike the right balance between strict budgetary discipline and predictability of expenditure, on the one hand, and the flexibility needed to enable the Union to respond to unforeseen challenges.

LEGAL BASIS: Article 312 of the Treaty on the functioning of the European Union (TFEU), in conjunction with the Treaty establishing the European Atomic Energy Community, and in particular Article 106a thereof.

CONTENT: in view of the overall objective of flexibility, the rules applicable to the next financial framework may be defined as follows:

Duration of the MFF and the overall framework proposed: the MFF will run for the period from 2014 to 2020. An Annex details the amounts year by year. The overall amount proposed for the 7-year period is **EUR 1,025 billion** in commitments (1.05% of EU GNI) and **EUR 972.2 billion** (1% of EU GNI) in payments.

Respect of MFF ceilings and possibility to exceed them: the proposal lays down the principle of a requirement for the institutions to respect the ceilings in the course of the budget procedure in accordance with the provisions of the Treaty. However, the proposal introduces the possibility to **exceed the ceilings**, if necessary, when the instruments not included in the financial framework are mobilised. The **Emergency**

Aid Reserve, the Solidarity Fund, the Flexibility instrument, the European Globalisation Adjustment Fund and the newly created Reserve for crises in the agriculture sector and the Contingency Margin are defined in Points 10 to 15 of the draft 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 needed. They increase the flexibility of the financial framework and are mobilised jointly by the two arms of budgetary authority. In order to maintain the current level of flexibility and the roles of the institutions in the mobilisation of these instruments, the provisions governing them are included in the draft IIA. The procedure of mobilising the guarantees from the Union's budget for the loans provided under the **Balance of Payments Facility and European Financial Stabilisation Mechanism** is excluded from the obligation to respect the ceilings of the financial framework and therefore from a need to revise the MFF. The relevant ceiling that needs to be respected is the own resources ceiling.

Respect of own resources ceiling: a change to this Article is proposed compared to the March 2010 proposal – an explicit reference to the fact that the use made of instruments which can be mobilised from outside the financial framework and of guarantees for a loan covered by the Union's budget according to [Regulation \(EC\) No 332/2002](#) or [Regulation \(EU\) No 407/2010](#) also need to respect the own resources ceiling.

Technical adjustment of the financial framework: the financial framework is presented in 2011 prices. The procedure for its technical adjustment is maintained as well as the 2% deflator. A new element is introduced in paragraph 1(c) – the presentation of the absolute amount of the Contingency margin at the level of 0.03% of EU GNI as defined in Point 15 of the draft IIA.

Adjustment of cohesion policy envelopes: this Article reproduces the text of point 17 of the current IIA and Article 5 of the March 2010 proposal. Thus, in 2018, if it is established that cumulated Gross Domestic Product (GDP) of any Member State for the years 2014-2016 has diverged by more than +/- 5 % from the cumulated GDP estimated in 2011 for the establishment of cohesion policy envelopes for Member States for the period 2014-2020, the Commission shall adjust the amounts allocated from funds supporting cohesion to the Member State concerned for that period. The total net effect, whether positive or negative, of the adjustments referred to in paragraph 1 may not exceed EUR 3 billion.

Adjustments related to implementation: the wording of this article, which lays down rules for the adjustments related to implementation, corresponds to Point 18 of the current IIA. The preparation of the legal bases and then programming documents is usually quite lengthy and therefore a late adoption of the legal texts or programmes needs to be envisaged. The adjustment concerning the transfer of unused allocation for the year 2014 shall be adopted before 1 May 2015.

Adjustments related to excessive government deficit: the wording of this article, which lays down rules for the adjustments related to excessive government deficit, has not been changed compared to the March 2010 proposal. Thus, in the case of the lifting of a suspension of budgetary commitments concerning the Cohesion Fund in the context of an excessive government deficit procedure, the Council, in accordance with the Treaty and in compliance with the relevant basic act, shall decide on a transfer of suspended commitments to the following years. Suspended commitments of year n may not be re-budgeted beyond year n+2.

Revision of the financial framework: the wording of this Article corresponds to the Points 21 to 23 of the current IIA and Article 8 of the March 2010 proposal. A few changes have been introduced: i) the general rule concerning the timing of a proposal for a revision has been dropped as it did not correspond to current practice given the need to deal with unforeseen circumstances when they arise; ii) the possibility to adapt the financial framework by qualified majority as proposed in March 2010 has been withdrawn (given the proposed widening of flexibility instruments, including the introduction of the Contingency

Margin); and iii) a new paragraph 5 was introduced which specifies which of the adjustments to the financial framework provided for in other articles are also to be considered as a revision of the financial framework.

Adjustment of the financial framework in the case of enlargement: the wording of this Article reproduces the text of Point 29 of the current IIA and Article 11 of the March 2010 proposal. A new paragraph is introduced with particular reference to a possible comprehensive settlement of the Cyprus problem during the period covered by the financial framework.

Interinstitutional cooperation in budgetary procedure: the general rules of the cooperation in budgetary procedure are included in the MFF Regulation, whilst the draft IIA and its annex contain more detailed provisions.

Financing of the Common Foreign and Security Policy (CFSP): the provision of the March 2010 proposal is maintained with an exception of establishing the minimum amount for CFSP.

Contribution to the financing of large scale projects: specific provisions are needed for major technological development programmes based on large scale infrastructure projects, notably the European satellite navigation programmes **EGNOS and Galileo**. Such provisions are warranted by the specific features of those projects, i.e. a duration largely exceeding the multiannual financial framework, project risks liable to produce substantial cost-overruns, limited or no participation of private capital, and no or only a modest ability to generate revenues from commercial exploitation in the short to medium term. Consequently, the proposed provision foresees a '**ring-fencing**' of the amount available for the European satellite navigation programmes EGNOS and Galileo under the 2014-2020 financial framework.

Mid-term assessment of implementation of the financial framework: a new provision establishes the timing for a mid-term assessment of the functioning of the financial framework (2016).

Transition towards the next financial framework: this article lays down the obligation for the Commission to present a new financial framework before 1 January 2018, i.e. three years before the end of the financial framework. Provision is also made in case no new financial framework is agreed by the end of the financial framework covered by the Regulation.

Entry into force: the final Article of the MFF regulation sets the date of entry into force of the Regulation. The IIA should enter into force on the same day as the two legal texts complement each other.