Basic information

2006/2018(BUD) BUD - Budgetary procedure	Procedure completed
2007 budget: section III, Commission **Subject** 8.70.60 Previous annual budgets	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
BUDG Budgets	ELLES James (PPE-DE) GRECH Louis (PSE)	11/01/2006 11/01/2006

Former committee responsible	Former rapporteur	Appointed
BUDG Budgets	ELLES James (PPE-DE)	11/01/2006

Former committee for opinion	Former rapporteur for opinion	Appointed
AFET Foreign Affairs	SZENT-IVÁNYI István (ALDE)	25/01/2006
DEVE Development	SCHRÖDER Jürgen (PPE-DE)	25/01/2006
INTA International Trade	ŠŤASTNÝ Peter (PPE-DE)	25/01/2006
CONT Budgetary Control	The committee decided not to give an opinion.	22/02/2006
ECON Economic and Monetary Affairs	PITTELLA Gianni (PSE)	03/04/2006
EMPL Employment and Social Affairs	RAINYTÉ-BODARD Ona (ALDE)	14/12/2005
ENVI Environment, Public Health and Food Safety	HAUG Jutta (PSE)	23/01/2006

ITRE	Industry, Research and Energy	GILL Neena (PSE)	21/02/2006
IMCO	Internal Market and Consumer Protection	NEWTON DUNN Bill (ALDE)	21/02/2006
TRAN	Transport and Tourism	JENSEN Anne E. (ALDE)	24/02/2006
REGI	Regional Development	HARKIN Marian (ALDE)	02/05/2006
AGRI	Agriculture and Rural Development	TARABELLA Marc (PSE)	29/11/2005
PECH	Fisheries	MIGUÉLEZ RAMOS Rosa (PSE)	14/02/2006
CULT	Culture and Education	TRÜPEL Helga (Verts/ALE)	13/02/2006
JURI	Legal Affairs	The committee decided not to give an opinion.	
LIBE	Civil Liberties, Justice and Home Affairs	DEPREZ Gérard (ALDE)	22/02/2006
AFCO	Constitutional Affairs	CARNERO GONZÁLEZ Carlos (PSE)	21/02/2006
FEMM	Women's Rights and Gender Equality	KAUPPI Piia-Noora (PPE-DE)	21/02/2006
PETI	Petitions	The committee decided not to give an opinion.	03/05/2006

Council of the European Union

Council configuration	Meetings	Date
General Affairs	2743	2006-07-17
Economic and Financial Affairs ECOFIN	2742	2006-07-14
Economic and Financial Affairs ECOFIN	2764	2006-11-21
Economic and Financial Affairs ECOFIN	2716	2006-03-14

European Commission

Commission DG	Commissioner
Budget	GRYBAUSKAITĖ Dalia

Key events

Date	Event	Reference	Summary
14/03/2006	Resolution/conclusions adopted by Council		Summary
15/06/2006	Commission preliminary draft budget published	SEC(2006)0531	
17/07/2006	Council draft budget published	11675/2006	Summary
26/09/2006	Committee referral announced in Parliament		
12/10/2006	Vote in committee		Summary
16/10/2006	Budgetary report tabled for plenary	A6-0358/2006	
24/10/2006	Debate in Parliament		
26/10/2006	Decision by Parliament	T6-0451/2006	Summary
26/10/2006	Results of vote in Parliament		
21/11/2006	Amended budget adopted by Council		
30/11/2006	Debate/examination by Council scheduled	15637/2006	Summary
05/12/2006	Vote in committee, 2nd reading		Summary
07/12/2006	Budgetary report tabled for plenary, 2nd reading	A6-0451/2006	
12/12/2006	Debate in Parliament		
12/12/2006	Committee referral announced in Parliament, 2nd reading		
14/12/2006	Decision by Parliament, 2nd reading	T6-0570/2006	Summary
14/12/2006	Results of vote in Parliament		
14/12/2006	End of procedure in Parliament		
16/03/2007	Final act published in Official Journal		

Technical information

Procedure reference	2006/2018(BUD)
Procedure type	BUD - Budgetary procedure
Procedure subtype	Budget
Stage reached in procedure	Procedure completed
Committee dossier	BUDG/6/42955

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary

Committee opinion	LIBE	PE376.432	05/09/2006	
Committee opinion	AFCO	PE376.315	11/09/2006	
Committee opinion	ITRE	PE376.300	12/09/2006	
Committee opinion	ECON	PE376.318	12/09/2006	
Committee opinion	CULT	PE376.565	12/09/2006	
Committee opinion	AGRI	PE376.673	12/09/2006	
Committee opinion	ENVI	PE374.464	13/09/2006	
Committee opinion	TRAN	PE376.321	13/09/2006	
Committee opinion	FEMM	PE376.339	13/09/2006	
Committee opinion	INTA	PE376.364	13/09/2006	
Committee opinion	REGI	PE376.452	13/09/2006	
Committee opinion	AFET	PE368.100	15/09/2006	
Committee opinion	EMPL	PE376.311	15/09/2006	
Committee draft report		PE378.810	29/09/2006	
Committee opinion	PECH	PE376.367	03/10/2006	
Committee opinion	DEVE	PE376.764	04/10/2006	
Amendments tabled in committee		PE378.842	05/10/2006	
Budgetary report tabled for plenary, 1st reading		A6-0358/2006	16/10/2006	
Budgetary text adopted by Parliament		T6-0451/2006	26/10/2006	Summary
Committee draft report		PE382.215	28/11/2006	
Amendments tabled in committee		PE382.364	01/12/2006	
Budgetary report tabled for plenary, 2nd reading		A6-0451/2006	07/12/2006	
Final budget adopted by Parliament		T6-0570/2006	14/12/2006	Summary

Council of the EU

Document type	Reference	Date	Summary
Council draft budget	11675/2006	17/07/2006	Summary
Document attached to the procedure	11676/2006	17/07/2006	Summary
Amending/supplementary letter on draft budget	13886/2006	17/10/2006	Summary
Amending/supplementary letter on draft budget	15636/2006	30/11/2006	Summary
Council amended draft budget	15637/2006	30/11/2006	Summary
Amending/supplementary letter on draft budget	15783/2006	30/11/2006	Summary

European Commission

Document type	Reference	Date	Summary

Document attached to the procedure	SEC(2006)0558	02/05/2006	Summary
Amending/supplementary letter on draft budget	SEC(2006)0762	14/06/2006	Summary
Commission preliminary draft budget	SEC(2006)0531	15/06/2006	Summary
Document attached to the procedure	COM(2006)0317	19/06/2006	Summary
Document attached to the procedure	SEC(2006)1176	26/09/2006	Summary
Document attached to the procedure	SEC(2006)1378	27/10/2006	Summary
Commission response to text adopted in plenary	SP(2006)5635	19/12/2006	

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Budget 2007/0143
OJ L 077 16.03.2007, p. 0001 Summary

Corrigendum to final act 32007B0143R(01)
OJ L 203 03.08.2007, p. 0092

2007 budget: section III, Commission

2006/2018(BUD) - 21/11/2006

The Council reached political agreement in second reading on the EU's draft general budget for 2007, subject to formal confirmation at a forthcoming Council. It requested the permanent representatives committee to continue negotiations on points that remain open between the Council and the European Parliament following the conciliation meeting with a parliamentary delegation on 21st November, in particular the **level of payment appropriations** and the **common foreign and security policy**.

2007 budget: section III, Commission

2006/2018(BUD) - 15/06/2006

PURPOSE : to present the Commission's preliminary draft budget (PDB) for 2007 (Section III-Commission).

CONTENT : this PDB 2007 is the first of the new multi-annual financial framework which will guide EU finances up to 2013 with many new programmes set to be launched in 2007. At the same time the PDB is a further step on the road to achieving the strategic objectives established by this Commission at the start of its mandate:

1. prosperity,
2. solidarity,
3. security;
4. external projection

The total Preliminary Draft Budget (PDB) for 2007 amounts to **EUR 126.8 billionin commitment appropriations.** This represents 1.08 % of Community GNI, and is an increase of 4.6 % on the 2006 budget. **Payment appropriations** are proposed at **EUR 116.4 billion**, or 0.99 % of GNI. This represents an increase of 3.9 % on 2006.

A margin of EUR 1.6 billion remains available under the ceiling of the new financial framework.

The Commission states that the overriding objective for the EU is growth, providing more and better jobs in Europe. The renewed Lisbon Strategy has given new clarity and focus to this objective, and this is reflected in the revised budgetary structure, and in the increased resources which will be devoted to it over the period of this financial framework.

For PDB 2007, out of a total of EUR 126,8 billion in commitment appropriations, **EUR 54.3 billion will be spent on policies related to growth and employment (new heading 1** of the multiannual financial framework), an increase of 14,3 % on the 2006 budget.

MAIN BUDGETARY CHARACTERISTICS BY HEADING : the following presentation is structured according to the new budget headings created by the new financial framework 2007-2013 :

Heading 1 : Sustainable growth : this new heading is split into two sub-headings :

- **1.a Competitiveness for growth and employment** : This sub-heading encompasses the key policies in achieving the **Lisbon Strategy**. The new **Competitiveness and Innovation Programme (CIP)** is shared between policy areas Economic and Financial Affairs, Enterprise, Environment, Information Society, and Energy and Transport. Also under Energy and Transport are the Trans-European Networks (TENs) (+18%), Marco Polo II and GALILEO. The **7**th **Research Framework Programme** (+3%)is a key element of this sub-heading, as is **Lifelong Learning** (+30%). Other actions contributing to the goals of competitiveness, growth and employment are social policy, internal market, statistics, the fight against fraud, and taxation and the customs union. Commitments for **Competitiveness for Growth and Employment (sub-heading 1a)** increase by 11.5 % to EUR 8 796,1 million, leaving a margin of EUR 121,9 million. Payments, however, see a decrease of 6.5 % to EUR 6 943,5 million.

- **1.b Cohesion for growth and employment** : Heading 1b of the financial framework covers the **Structural Funds** i.e., the European Regional Development Fund (ERDF) and the European Social Fund (ESF), and the **Cohesion Fund**. Budget lines for the pre-2007 programmes for the European Agricultural Guidance and Guarantee Fund (EAGGF) — Guidance section and the Financial Instrument for Fisheries Guidance (FIFG) are now found under Heading 2. Commitments for the Structural and Cohesion Funds increase by 15 %, and there is full participation by all Member States. For this sub-headingcommitments are set at the level of the ceiling, i.e. EUR 45 486,6 million, which is an increase of 14.8 % on 2006. Payments also rise, by 19.1 %, to EUR 37 790,3 million. For sub-heading 1b the overall payments budget comprises 4 components — advance payments relating to the commitments under the new financial framework; reimbursements to clear RAL for the 2000-2006 Structural Fund programmes; a residual amount to clear remaining RAL for the pre-2000 programmes; and payments for the Cohesion Fund.

For **Heading 1**, the total commitment appropriations is set at EUR **54.3 billion** an increase of EUR 6.8 billion compared to the 2006 budget which was EUR 47.5 billion.

Heading2 : Preservation and management of natural resources : for the 2007 budget the Commission proposes budgeting EUR 57 217,6 million for heading 2, of which EUR 43 684 million is for **agricultural expenditure** (market related expenditure and direct payments) and EUR 12 371,4 million is for **rural development**. Furthermore, of the total amount for heading 2, EUR 887.6 million is foreseen for **fisheries**, and EUR 240.6 million for **environment**. This leaves a margin of EUR 1 133,4 million under the ceiling of the financial framework for 2007-2013. The commitment appropriations proposed for the 2007 budget constitute an increase of 1.2 %, or EUR 667 million, compared to the 2006 budget.

Heading 3 : Citizenship, freedom, security and justice : this new heading shall be allocated EUR 1.174 billion in commitments. It shall be broken down into 2 sub headings:

- **Heading 3.a : Freedom, security and justice :** The year 2007 will see the launch of three new framework programmes in the field of Freedom, Security and Justice: **Fundamental Rights and Justice, Security and Safeguarding Liberties**, and **Solidarity and Management of Migration**. These will group together smaller instruments and a series of pilot projects and preparatory actions. However, the overall objective of fulfilling the **Hague Action Plan** remains the prime focus until 2009, and the new framework programmes are aimed at the continued achievement of its ten priorities. This sub heading shall be allocated EUR 571.3 million in 2007.

- **Heading 3.b : Citizenship:** this sub-heading covers issues of key concern to the citizens of Europe, including **health and consumer protection**, and **rapid response and preparedness for major emergencies**. The crucial task of reaching out to the citizens and communicating Europe also fall within this category, through the funding of **cultural programmes** and the policy area **Communication. Institution-building** in Bulgaria and Romania is also financed under sub-heading 3b for EUR 87 million in PDB 2007.

Heading 4 : the EU has a role to play as a global partner: the new budgetary structure provides for six instruments, three with a defined geographical coverage to implement particular policies (pre-accession, neighbourhood, development and economic cooperation), and three designed as horizontal instruments to respond to particular needs (humanitarian aid, stability, macro-financial assistance). For PDB 2007 commitment appropriations amount to EUR 6.7 billion, and payments to EUR 7.5 billion. This is a reduction compared to 2006, but the difference is easily explained for commitments by the fact that Bulgaria and Romania are expected to join the Union in 2007, and so their pre-accession aid is phased out.

Heading 5 : Administration : lastly, EUR 7 billion (5.5% of the budget – the same share as in 2006), has been earmarked for **administration** costs (heading 5), including new posts necessary for past and the expected enlargement (Bulgaria/Romania) of the EU. In 2007, the evolution of posts is again strongly influenced by the needs of enlargement. In total 853 posts are requested by the Commission, complemented by 50 external staff. Added together, this request represents an increase of 4 % in the Commission staff (640 for the Commission alone).

2007 budget: section III, Commission

2006/2018(BUD) - 26/10/2006 - Budgetary text adopted by Parliament

In adopting the report by James **ELLES** (EPP-ED, UK), the European Parliament was, for the most part, in agreement with its competent committee, and approved the draft budget for the year 2007, the first to be adopted in the context of the new financial perspectives. The strategy of the rapporteur for the Commission's budget called "Value for Money", focused on the adequate funding of programmes considered as priorities by Parliament. The funding of Commission's posts for which Council had proposed a major cut was reinstated by Parliament subject to a number of conditions.

General principles: Parliament adopted a 2007 draft budget substantially higher than that adopted by Council in its July first reading. Commitments are set at EUR 127.3bn, payments are EUR 122bn, equalling 1.04 % of GNI. The Council had adopted a draft budget of EUR 125bn in commitments and EUR 114bn in payments, or 0.98% of GNI. With this vote, Parliament has stayed well within the margins of the Financial Perspective.

Parliament stated that it had based its amendments on a thorough analysis of a number of sources of information on the quality of spending of EU funds and on budget implementation, and that budget amendments were prepared on the basis of the information thus obtained. The level of aggregate appropriations proposed by the Council in its draft budget falls well below the level needed for the EU to respond effectively to the challenges of globalisation it faces. It was important to prepare for the review of the Multi-annual Financial Framework (MFF) in 2008, which should deliver EU spending that is better focused on policy priorities.

Horizontal issues: in order to ensure improved value for money, Parliament proposed amendments to place 30% of appropriations in reserve on a number of budget lines until the Commission could reassure the Parliament that this money will be spent in a manner that delivers value for money to the European taxpayer. It reduced by 10% the appropriations for administrative management directly linked to programmes on a horizontal basis. Accordingly, Parliament both placed amounts in reserve due to some concerns about the quality of implementation and increased appropriations according to political priorities. It went on to propose a number of new Pilot projects and preparatory actions broadly in line with its priorities and restored appropriations in the PDB for existing agencies, pending a positive evaluation of the performance of the agency against its final work programme. As regards the new agencies (Chemicals Agency, Gender Institute, Fundamental Rights Agency), Parliament proposed deleting the appropriations entered in the draft budget in particular in light of the fact that no legal base yet existed for these agencies.

Parliament also made a number of comments on each of the budget headings:

Heading 1a - Competitiveness for growth and employment: Parliament adopted a series of amendments for the old structural funds lines now in heading 1a & 1b. It decided to reject the Council's approach of reductions in a number of crucial budget lines aiming at improving the competitiveness of the EU's economy. Parliament decided to increase payment appropriations for priority programmes linked to the Lisbon agenda such as the Competitiveness and Innovation Programme (CIP) and the Seventh Framework Programme in particular. Regretting that the appropriations for trans-European transport networks (TEN-T) had been considerably reduced for the 2007-2013 MFF, Parliament awaited a satisfactory agreement with the Council and the Commission on a regulation on financial aid in the field of trans-European transport networks and priority projects to which funds should be allocated. It awaited, too, proposals on adequate public funding to create the pump-priming effect expected of European Investment Bank cofinancing, and an increase in the long-term subscribed for the European Investment Fund. Parliament then reminded the Commission that the GALILEO programme was underfinanced in the new MFF and asked for a workable and lasting solution in order to ensure the success of this programme.

Heading 1b - Cohesion for growth and employment: Parliament noted that the appropriations for the structural and cohesion funds were considerably lower for the 2007-2013 MFF than had been anticipated, and felt that the appropriations in the PDB should be restored. It increased payment appropriations for budget lines linked to cohesion in line with its policy priorities. ESF Convergence and regional competitiveness were increased to EUR 1442m and EUR 661m respectively from EUR 1092m and EUR 461m. The Commission must present proposals for the allocation of resources for the International Fund for Ireland during the 2007 budgetary exercise.

Heading 2 - Preservation and management of natural resources: Parliament deplored the Council's drastic across-the-board cut in market expenditure of EUR 525 million, based on accounting criteria and without taking account of Parliament's priorities. It called for the re-establishment of the figures in the PDB. It was also concerned with the fall in real terms of spending on rural development, despite the need to restructure the rural economy.

Stating that a voluntary transfer of funds from direct agricultural support (CAP "first pillar") to rural development was not the appropriate means for remedying this situation, Parliament expressed strong reservations about the current Commission proposal concerning voluntary modulation of up to 20% of direct agricultural support to rural development. It called for an impact assessment and a revised proposal on voluntary modulation. It also urged the Commission, in the absence of agreement between the co-legislators on LIFE+, to include in an amending letter the necessary modifications to allow the provisional financing of activities contributing to preparatory work and continuity of the environmental programmes.

Heading 3a - Freedom, security and justice: given the urgency of immigration matters, Parliament proposed an increase for the agency managing EU external borders (Frontex) with +12.8 million in commitments and payments amounting to a total of EUR 34 million) as well as the funds for external borders (+ EUR 7.6 million in commitment and EUR +10 million in payment for a total of EUR 170 million for commitments and EUR 87.5 million for payments. Parliament also emphasised its priorities in this area, and in particular the promotion of fundamental rights, the definition of a common asylum and migration policy and the fight against terrorism and organised crime. It resolved to increase the resources allocated to this area, in particular to Eurojust , and restated its repeatedly made demand that Europol be placed on a Community footing. On the issue of citizenship, Parliament urged the Commission to clarify the budget implications of and the actions to be taken under the Plan D for Democracy Debate and Dialogue, and to publish on the Internet the detail of allocation of subsidies (amounts and beneficiaries) for all actions.

Heading 4 - The EU as a global player: Parliament stayed within the ceiling of heading 4, and, contrary to previous years, did not ask for the "flexibility instrument" (which can free up to 200m for non-recurring, unforeseen needs) to be used. However, it proposed the restoration of PDB figures on a number of lines and increases beyond the PDB in payments and in commitments in some areas with a view to boosting EU activities through

Community programmes in the fields of foreign policy, development and humanitarian aid, and business and scientific exchanges with key emerging countries such as China and India.

Parliament went on to state that it could not accept that a number of the proposed changes reduce transparency for sectors and/or regions and countries, and it introduced necessary modifications in this respect. The Commission should provide also a breakdown per activity and pre-accession country and, in the interests of transparency, a corresponding nomenclature in all corresponding budget lines. Parliament was also concerned that the expansion of activities in the area of the Common Foreign and Security Policy had not been matched by increased democratic accountability and parliamentary scrutiny, and proposed budgetary amendments to foster a greater degree of transparency and cooperation in this regard.

Heading 5 - Administration: Parliament was firmly opposed to the approach adopted by the Council, which cut 200 posts in the EU institutions, principally the Commission, in 2008 and a further 500 posts between 2008 and 2010. It decided to restore the cuts made by the Council on the Commission's administrative expenditure including for the establishment plan in order to allow its proper functioning, and entered EUR 50 million in the reserve with some conditions. These include a commitment to carry out a screening exercise providing a mid-term evaluation of its staff needs and a detailed report on the Commission's staffing of support and coordination functions covering all places of work. Another condition required a commitment to set down an improved procedure in line with the Framework Agreement to include Parliament's legislative and budgetary priorities in its legislative and work programme, allowing a presentation before Parliament in February 2007 of the Union's work programme.

Pilot projects and preparatory actions: concerning the pilot projects and preparatory actions (instruments aiming to finance temporary actions which are not covered by other community programmes), Parliament adopted, at this stage, a list of projects including: "Euroglobe" (a pilot project on a Globe theatre aiming to promote an open European space for debate, culture and study), and preparatory actions with China and India on management exchange programmes to operate in the university and research sectors.

2007 budget: section III, Commission

2006/2018(BUD) - 19/06/2006 - Document attached to the procedure

In accordance with budgetary procedure, the Commission has annexed this document to the draft budget for 2007. The information contained in the document forms the basis for compiling an interim estimate of commitments and payments. This document analyses:

- implementation of the 6th and 9th EDFs at 31 December 2005;
- financial forecasts for the current year; and
- expenditure forecasts for 2007.

As a reminder, the funds contributed by the Member States to the EDF go directly the EIB for the instruments, for which it bears responsibility under the 9th EDF namely the Investment Facility and interest-rate subsidies. Contributions for all other instruments, (this includes old instruments managed by the EIB in the form of risk capital and interest-rate subsidies) are managed by the Commission. Unless otherwise indicated, all the commitments and payments listed in this Communication are gross amounts. Decommitments or recoveries have not been deducted.

Funds available to the EDF – end 2005

At the end of 2005, the total funds available to the Commission and EIB under the 6th and 9th EDF, totalled EUR 46 823 million. Of this amount, a sum of approximately EUR 39 894 was committed and one of EUR 28 657 million spent. EUR 5 851 million of the amount not committed will fall within the remit of the Commission and be committed by the end of 2007. These figures take account of the full mobilisation of the conditional EUR 1 billion.

EDF implementation 2005

Commitments: In October 2004 the Commission announced its attention of committing EUR 3 500 million to the EDF. In 2005 the Commission reached this target by committing EUR 3 511 million. The EIB committed EUR 504 million under the Investment Facility (including interest rate subsidies) instrument, falling short of the EUR 597 million forecast in its October 2005 communication. Together both the Commission and the EIB committed, in 2005, just over EUR 4 billion.

As far as “decommitted” actions are concerned, the Commission decommitted some EUR 476 million. This figure is high compared to those in recent years and is the result of Commission efforts to pursue fund reallocation before the 10th EDF enters into force.

Payments: Payments in 2005 reached a record high. Both the Commission and the EIB totalled EUR 2 699 million in payments. The Commission achieved 98% of the volume forecast in October last year and 97% of the volume estimated in October 2004. The EIB, on the other hand, made payments totalling EUR 155 million – lower than its October 2005 estimate of EUR 190 million.

Financial movements: On the matter of financial movements for 2005, the Commission points out that this Communication does not cover payments made under Stabex (EUR 71 million) or payments for special measures for DR Congo (EUR 89 million) given that these were made from separate accounts into which Member States had already contributed. The cash balance available to the Commission for operations at the end of 2005 was approximately EUR 137 million. This balance is higher than expected by EUR 66 million, mainly due to less expenditure on risk capital and, to a lesser extent, to larger amounts being recovered. Even though the balance is higher than in the two previous years, it is still much lower than in the years preceding that. To recall, the 1998-2002 average was EUR 340 million. The EIB’s end of year balance was EUR 141 million.

Forecasts for 2006 and 2007

Commitments: As far as commitments are concerned, in 2006 the EIB is still on target for achieving the figures set out in its October 2005 Communication. The Commission's new estimate of EUR 3 400 million confirms the overall total announced in October 2005 and remains well above the cautious forecast of June 2005, which was EUR 3 100 million. The total volume of commitments has been upwardly adjusted to EUR 3 986 million.

As far as commitments for 2007 are concerned, the EIB forecasts that it will commit EUR 395 million. The Commission's forecast for 2007 is based on the previous EDF commitment cycles. The new estimate of EUR 3 450 million is based on actual activities and confirm that the Commission will, by the end of 2007, be able to honour its pledge to make use of the entire financial allocation made available under the Cotonou Agreement. Taken together the Commission and EIB commitments are expected to total EUR 3 845 million.

Payments: For 2006, the EIB has adjusted its estimates upwards, from EUR 240 million in October 2005 to EUR 315 million. EUR 270 million of this will be used under the Investment Facility and EUR 45 million for interest-rate subsidies. The Commission notes that it has made a particular effort to update payment forecasts. The forecast can now be broken down by project commitment and by contract. In addition, the new forecast shows a total of EUR 2 750 million for the Commission, practically unchanged from the October 2005 forecast of EUR 2 784 million. To conclude, EIB and Commission payments now total EUR 3 065 million, which is roughly the same as that forecast in October 2005.

For the 2007 financial year, total payments in 2006 are expected to be EUR 3 260 million of which: EUR 410 million for the EIB under the 9th EDF (EUR 330 million of which goes to the Investment Facility) and EUR 2 850 million for instruments managed by the Commission. The Communication points out that these figures focus on a future time frame and therefore should be treated with some caution.

Financial forecast for 2006 and 2007

The EIB has requested an extra EUR 40 million in contribution for 2006 in order to meet its payment forecast. Contributions made by the Member States, on the other hand, will drop from EUR 2 690 million to EUR 2 510 million. This is due to a number of factors. The first relates to a reduction in the initial risk capital payments. Secondly, other instruments have also seen a slight reduction in payments (other than the Stabex system for which fund had already been contributed in the past). Further, the upwards adjustment in recoveries means that fewer contribution are needed – i.e. EUR 33 million less for 2005 and 2006.

The Commission is proposing a second tranche which is slightly lower than the one forecast in October. On the basis of this estimate, it might be possible to reduce the third tranche from EUR 290 million to EUR 200 million. The Commission will review the situation in its October 2006 Communication. The EIB, on the other hand, has requested EUR 100 million compared to the EUR 60 million forecast last October, allowing it to finance the new higher disbursement forecast.

A preliminary estimate of the contributions required for 2007 is EUR 3 100 million.

Lastly, the large increase in contributions made between 2003 and 2007, in the Commission's view, is a sign that the EDF is becoming more efficient.

2007 budget: section III, Commission

2006/2018(BUD) - 26/09/2006 - Document attached to the procedure

PURPOSE : to present Amending Letter 2/2007 to the preliminary draft budget (Section III – Commission).

CONTENT : the adaptations to the Preliminary Draft Budget for 2007 (PDB 2007), included in Amending Letter No 2 (AL 2) fall into two broad categories:

- § those which have a net financial impact;
- § those which merely concern adjustments to the budgetary remarks and other technical corrections.

1) Changes with a net financial effect:

- The budgetary aspects of the creation of the European Globalisation Adjustment Fund (EGF) must be taken into account following the approval on 17 May 2006 of the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management. EUR 500 million in commitment appropriations are thus entered into the reserve.

- Pending adoption of the proposal for a new Council Regulation on Community financial contributions to the International Fund for Ireland (IFI), it is proposed to enter EUR 15 million in commitment appropriations into the reserve.

- Following the adoption by the Commission on 28 June 2006 of the proposal for a Decision amending and extending Decision 804/2004/EC on a Community action programme to promote activities in the field of the protection of the Community's financial interests (Hercule II), it is proposed to increase the level of commitment (+EUR 6 million) and payment appropriations (+ EUR 4.4 million) entered in the reserve for this programme.

- Changes reflecting the variation in the components of Heading 1b in the legal bases that have been adopted, relative to the respective envelopes that were known at the time of preparation of the PDB 2007. The contribution of Heading 1b to the European Neighbourhood and Partnership Instrument has now been entered in the budget. For commitment appropriations the net financial impact is zero but there is an increase in payment appropriations of EUR 8,4 million. There are also changes of a similar nature, reflecting variations in the "convergence" and "non-convergence" envelopes of the European Fisheries Fund, though in this case the financial impact is zero for both commitment and payment appropriations.

To summarise, these modifications primarily concern commitment appropriations to be entered in the reserve (EUR 500 million for the EGF, EUR 15 million for the IFI, and EUR 6 million for Hercule II, all under Heading 1a). For payment appropriations EUR 4.4 million relates to payment

appropriations for Hercule II, to be entered into the reserve for Heading 1a. EUR 8.4 million in additional payment appropriations are requested for Heading 1b.

2) Technical ajustments:

- The modification of the budgetary remarks to take account of the revised legislative package, adopted by the Commission on 24 May 2006. The amended legislative acts proposed are consistent with the annual expenditure ceilings agreed in the new multi-annual financial framework.

- For the Structural Funds and the European Fisheries Fund, updates take account of the adoption of the legal acts.

- In order to ensure a homogenous promotion system for all Commission staff, adaptations to the establishment plan of the Joint Research Centre (JRC) are proposed.

- Following the modernisation of the accounting system, there is also a need to put forward a proposal to create, with a token “p.m.” entry, two new budget lines: 27 01 12 02 “Coverage of expenditure incurred in connection with treasury management” and 21 01 04 10 “EDF contribution to common administrative support expenditure”, both already proposed in PDAB 5/2006.

- In order to take account of the forthcoming legislative proposal on the European Investment Fund capital increase, the budget remarks of expenditure item 01 04 09 01 “EIF-Provision of paid-up shares of subscribed capital”, and revenue Article 850 “Dividends paid by the EIF” should be updated.

- A technical correction is necessary to finance budget Article 04 04 09 “Support for the running costs of the Platform of European Social Non-governmental organisations” under Heading 3b of the new multi-annual financial framework, instead of Heading 1a as in the PDB. This involves moving EUR 620 000 in both commitments and payments from Heading 1a to Heading 3b.

- The budget remarks of a number of Community programmes (Community Statistical Programme, Lifelong, Learning, Youth in Action, Media, European Environmental Agency) should be updated to reflect an agreement on the participation of the Swiss Confederation.

Finally, by means of this amending letter, the Commission draws the attention of the European Parliament and the Council on the consequences of a possible delay in the adoption of certain new legal bases in the field of external actions, and the proposed remedial actions that might be required before the new legal bases enter into force. In the framework of the negotiations on the Interinstitutional Agreement (IIA) on budget discipline and sound financial management, political agreement was reached on the need for the new programmes and the related financial envelopes. Despite this, the legal bases of certain programmes might not be approved by the end of 2006. This would create a legal vacuum, in particular for the ongoing programmes expiring at the end of 2006, which are going to be consolidated in new instruments. Therefore, the Commission intends to ensure the means for the ongoing actions to be properly completed and the preparatory work for the new programmes to be operational once the relevant legal bases are eventually adopted.

2007 budget: section III, Commission

2006/2018(BUD) - 02/05/2006

This Commission document concerns the maximum rate of increase for “non-compulsory” expenditure for the 2007 budget. It states that , in accordance with Article 272(9) of the EC Treaty, the maximum rate of increase shall be:

- 3.4% for the 2007 budget with the current 25 Member States;
- 3.6% for the 2007 budget with the current 25 Member States and Bulgaria;
- 4.0% for the 2007 budget with the current 25 Member States and Romania;
- 4.2% for the 2007 budget with the current 25 Member States, Bulgaria and Romania.

2007 budget: section III, Commission

2006/2018(BUD) - 17/07/2006

On 14 July 2006, the Council adopted at first reading, by qualified majority, the draft general budget for 2007 (for details please refer to the summary dated 17 July 2006).

The Council’s draft budget is subject to a preliminary debate involving all the institutions. During this debate, the Council requested that the European Parliament and the Commission agree on its draft declarations on “the recruitment in relation with the 2004 enlargement procedure” (see Council activities 14 July 2006).

The European Parliament expressed its concerns regarding the level of appropriations in the draft budget 2007, especially under sub-Headings 1a, 3b and on Heading 4, and announced its intention to conduct cost-benefit analyses on specific areas of the budget. As regards the Council declarations, the European Parliament indicated that it was not able to support them at this stage of the procedure.

The Commission criticised the reductions of appropriations made by the Council, especially regarding administrative expenditure, and it reiterated its support for the figures included in its Preliminary Draft Budget.

The Council took note of the comments made by the European Parliament and the Commission.

Particular attention was paid to the following issues:

1. Common Foreign and Security Policy (CFSP): the European Parliament pointed out that its analysis on the CSFP budget will be based on a cost-benefit study to be carried out later on during the budgetary procedure. As regards the changes introduced by the Council on the nomenclature, it indicated that it might accept them at a later stage. The Commission stated that it could agree to changes to the nomenclature if there was an agreement of both arms of the Budgetary Authority on this issue. The European Parliament and the Council agreed to seek an agreement on the CFSP budget for 2007 in November at the latest under the provisions of the Interinstitutional Agreement.

2. Pilot projects and preparatory actions: the Council presented two new Pilot Projects on "New ideas to strengthen the capacity of the knowledge triangle (education, research and innovation" and on "Energy security-biofuels". The European Parliament stated that the inclusion of two new Pilot Projects is in contradiction with all the reductions that the Council applied to the Preliminary Draft Budget, and indicated that it was not able to accept them at this stage of the procedure. The Commission took note of both Pilot Projects and indicated that it will issue a report on the execution of these Pilot Projects in its "letter on the implementation of the IIA on legal bases" in autumn. The European Parliament and the Council agreed to come back on this issue at the next conciliation meeting in November 2006.

2007 budget: section III, Commission

2006/2018(BUD) - 14/12/2006 - Final budget adopted by Parliament

The European Parliament adopted the report by its co-rapporteurs, James **ELLES** (EPP-ED, UK) and Louis **GRECH** (PES, MT), on the second-reading proposal on the draft EU budget for 2007 (please refer to the summary of 05/12/2006).

As regards the main elements of the IIA heading, the Parliament has expressed itself as follows:

- **Heading 1a - Competitiveness for growth and employment**: Parliament decided to reject the Council's approach of reductions in a number of crucial budget lines aiming at improving the competitiveness of the EU's economy. It has, however, decided to increase payment appropriations, albeit at a reduced level relative to its first reading, for priority programmes linked to the Lisbon agenda such as the Competitiveness and Innovation Programme (CIP) and the 7th Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013). It also stresses the technological and economic significance of the Galileo programme and reminds the Commission that, taken over the period as a whole, this programme is underfinanced in the new MFF and calls on the Commission to seek promptly a workable and lasting solution in order to ensure the success of this programme.
- **Heading 1b - Cohesion for growth and employment:** (EUR 54.9 billion, +15.4%) it notes that the appropriations for the Structural and Cohesion funds are considerably lower for the 2007-2013 MFF than had been anticipated. It considers therefore that the appropriations in the PDB should be restored. On pre-accession assistance, it asks the Commission to present a transfer request or amending budget during the course of 2007 if the amounts foreseen in the 2007 Budget turn out to be insufficient.
- **Heading 2 - Preservation and management of natural resources:** (EUR 56.3 billion in commitments, +1%): Parliament notes that 2007 will be the first year of full implementation of the most recent reform of the Common Agricultural Policy (CAP). It rejects the cuts in compulsory expenditure adopted by the Council in its second reading and rejects the re-classification of several budget lines in the agricultural field from non-compulsory to compulsory expenditure as proposed by the Commission in its Letter of amendment No 2/2007. It expresses strong reservations about the current Commission proposal concerning voluntary modulation of up to 20% of direct agricultural support to rural development. It is disappointed that in spite of the major needs for appropriations for development of a dead vaccine for the Blue Tongue virus (BTV), Council refused to approve this initiative by Parliament in its second reading. The Parliament welcomes however the Commission's suggestion, expressed in the letter of executability, to incorporate the development of a new vaccine for blue tongue in the Research budget under the IPA projects. It endorses and welcomes the joint declaration on Life+ agreed by Parliament, Council and Commission as regards the provision of interim financing in the event of a legislative gap arising between the beginning of 2007 and the final adoption of the legal act.
- **Heading 3a - Freedom, security and justice:** Parliament considers that integrated management of the Union's external borders is one of the objectives currently requiring urgent support. It accordingly restores the PDB level of commitment appropriations for the FRONTEX agency, whilst placing some funds in reserve in line with the overall approach on agencies. In addition, the Parliament increases the amount of the FRONTEX Fund to EUR 170 million.
- **Heading 3b – Citizenship:** the Parliament calls on the Commission to support the broadcasting of Euronews in Arabic and urges the Commission to clarify the budget implications of, and the actions to be taken under, the Plan D for Democracy Debate and Dialogue. It asks the Commission to publish on the Internet the detail of allocation of subsidies (amounts and beneficiaries) for all actions. The EU support in the field of freedom, security and justice will grow by 12.8% to reach a total of over EUR 0.6 billion.
- **Heading 4 - The EU as a global player:** (EUR 6.8 billion in commitments, that is an increase of 4.5% compared to 2006): the Parliament believes that the EU should ensure that it has the wherewithal to act as a global player in keeping with its values. It proposes the restoration of PDB figures on a number of lines and increases beyond the PDB in payments and in commitments in some areas with a view to boosting EU activities through Community programmes in the fields of foreign policy, development and humanitarian aid, and business and scientific exchanges with key emerging countries. It highlights the importance of transparency in the use of the funds allocated to Iraq via the two trust funds and recalls the need to monitor closely Iraq's absorption capacity. It therefore asks the Commission to provide regular information about the projects financed by the EU and the level of absorption of the funds earmarked for that country. Aid for the candidate countries and potential candidates in the Western Balkans will be gathered under one single pre-accession instrument. Taking into account the accession of Bulgaria and Romania, the total amount available for the remaining candidates and potential candidates will increase considerably – by 6.5% to reach EUR 1.2 billion. A total of EUR 1.4 billion (+11,1%) will be used in fostering development in the neighbouring countries to east and south. For all other developing regions (ACP, Asia and Latin America), the EU budget foresees EUR 2.2 billion in commitments. This amount is somewhat lower than in 2006, which was marked by the EU's exceptionally high contributions to reconstruction efforts in the tsunami-hit areas, Iraq and Afghanistan, but long term support to developing regions is in fact increasing. Parliament restores appropriations for the CFSP to the level proposed in the Commission's PDB and Council's DB (**EUR 159.2 million**) and it underlines that it requests the Council to comply with the letter and the spirit of the IIA as regards the CFSP in line with the exchange of letters between Chairmen **BROK** and **LEWANDOWSKI** and the Finnish Minister WIDEROOS. Moreover, it notes that Parliament's second reading on the 2007 budget leaves no margin remaining

under heading 4 and that increased commitments through amending budgets during the course of 2007 would therefore imply recourse to the flexibility instrument. It expects to be kept fully informed on a pro-active a priori basis by the Council of the financial needs for the forthcoming Kosovo mission.

- **Heading 5 – Administration**: (EUR 6.9 billion in commitments, equating to an increase of 5.5% compared to 2006): Parliament n notes that the cuts in staffing levels initially proposed by the Council will not be implemented in the 2007 budget. It decides to release the amounts placed in reserve in its first reading for Commission staff resources on the basis of a letter from the President of the Commission accepting that all four requests of Parliament to release the reserve will be fully met and looks forward to a strategic discussion of staffing in the EU institutions during 2007 in the context of the screening exercise requested by Parliament.
- **Other sections of the 2007 budget :** Parliament notes that the budgetary increase given to "other sections" in the 2007 Budget, excluding enlargement costs, was only 1,7% over the 2006 budget; this increase constitutes only a marginal increase and reflects the increase in the inflation rate and the cost for the specific priorities of the institutions and is, in fact, significantly less than that requested in the PDB; decides to retain its original position taken in first reading by restoring EUR 10.63 million of the EUR 28.28 million reductions made by Council. It regrets therefore the Council's decision not to agree with Parliament's budget for the "other sections" as approved in first reading and requests that the institutions submit by 1 September of each year more informative reports on their activities and their performance. Lastly, it reiterates the importance of interinstitutional cooperation which, undoubtedly, can bring about benefits to certain institutions (European Economic and Social Committee and the Committee of the Regions).

It should be noted that the resolution reflects the interinstitutional statements approved in the framework of the budgetary trilogue (see summary of 30 /11/2006).

2007 budget: section III, Commission

2006/2018(BUD) - 27/10/2006 - Document attached to the procedure

PURPOSE: to present the amending Letter No 3 to the preliminary draft amending budget 2007.

CONTENT: according to the Interinstitutional Agreement on budgetary discipline and sound financial management, the Commission may present to the two arms of the budgetary authority an ad hoc letter of amendment:

§ to update the figures underlying the estimate of agricultural expenditure in the preliminary draft budget (PDB);

§ to correct, on the basis of the most recent information available concerning fisheries agreements in force on 1 January of the financial year concerned, the amounts and their breakdown between the appropriations entered in the operational items for international fisheries agreements and those entered in reserve.

The Commission presents herewith this ad hoc amending letter (AL 3/2007) to the preliminary draft budget 2007, containing a careful, line by line update on the estimated needs for agricultural expenditure. In addition to changing market factors, the AL also incorporates legislative decisions adopted in the agricultural sector since the PDB was drawn up, revised estimates of needs for direct payments, as well as any proposals, which are expected to have effect during the coming budget year.

The AL is based, in the same way as the PDB itself, on the needs of the Community as a whole. As far as the market measures are concerned, no breakdown of the appropriations between Member States is available. In addition, it must be stressed that these appropriations are to be understood as a forecast and not as an objective of expenditure. The actual expenditure will depend, in particular, on real market conditions, on the actual euro-dollar exchange rate, and on the rhythm of the payments by Member States. Since this is compulsory expenditure, whatever the amount a Member State is obliged to pay in accordance with the regulations – within the limits set by the financial framework - will be reimbursed in full.

The euro-dollar rate used, in accordance with Council Regulation No 1290/2005 on the financing of the Common Agricultural Policy, is based on the average rate observed between 1 July and 30 September 2006. It comes to 1,27 (EUR 1=USD 1,27) and results in **an increase in needs of about EUR 78 million compared to the PDB**.

For clarification and transparency purposes, some budgetary comments have been updated.

- The needs for *agricultural expenditure* amount to EUR 42 832 million, **a reduction of EUR 852 million compared to the PDB**. Overall needs for Heading 2 are estimated at EUR 56 366 million, leaving a margin of EUR 1 985 million in commitment appropriations below the corresponding ceiling of the Financial Framework.

- The change for *International fisheries* agreements relates to the entry into force of the Fisheries Partnership Agreement with Mauritania, but without modifying the overall amount foreseen for fisheries agreements. It is proposed to reduce the reserve line by an amount of **EUR 86 million** and to increase the corresponding operational line by the same amount.

2007 budget: section III, Commission

2006/2018(BUD) - 14/06/2006 - Amending/supplementary letter on draft budget

PURPOSE : to present the amending letter No 1 to the preliminary draft budget 2007.

CONTENT : the Amending Letter No 1 covers the following points:

- the revision of the forecast of traditional own resources (TOR, i.e. customs duties, agricultural duties and sugar levies), value added tax (VAT) and gross national income (GNI) bases;

- the budgeting of the 2006 UK corrections as well as its financing (EUR 5.251. 202.631), resulting in a change in the related own resources contributions from each Member State to the EU budget.

The amending letter includes a summary table highlighting the distribution of total own resources payments between Member States as budgeted in the PDB 2007 and in the present AL 1 to the PDB 2007.

The expenditure level remains the same as in the PDB 2007 : **EUR 115.112.609.227.**

2007 budget: section III, Commission

2006/2018(BUD) - 14/12/2006 - Final act

PURPOSE: to present the final adoption of the general budget of the European Union for the financial year 2007.

LEGISLATIVE ACT: 2007/143/EC, Euratom.

CONTENT: the 2007 budget was adopted on 14 December 2006 and is the first one to be issued under the 2007-2013 financial framework and the first involving the enlarged European Union of 27 Member-States. It is in conformity with the definitions set out by the budget authorities and with the European Parliament's text adopted at 2nd reading (see Parliament's resolution of 14.12.2006).

This budget supports a new generation of programmes which deal with the main priorities of the Union. The record increase in expenditure for programmes which reinforce sustainable growth, competitiveness, and the cohesion of the European economy reflects a greater sign of the political priorities of the Union being reflected in the budget plan.

The budget for 2007 amounts to **EUR 126.5 billion in commitment appropriations**. This represents 1.08% of Community GNI, and is an increase of 5% on the 2006 budget. A margin of EUR 1.85 billion remains available under the ceiling of the new financial framework.

Payment appropriations of EUR 115.5 billion have been agreed, or 0.99% of GNI. This represents an increase of 7.6% on 2006. This is a realistic assessment of the needs for payments in a year where many new programmes will start.

The priorities of the 2007 budget for the European Union: the key priority for the European Union remains growth and employment in line with the Lisbon Strategy.

The main budget headings are as follows:

Heading 1 – Sustainable development: this heading is allocated EUR 54.9 billion in commitments and EUR 44.9 billion in payments. It includes 2 sub-headings:

- **Heading 1a – Competitiveness for growth and employment:** this sub-heading amounts to EUR 9.4 billion, that is 7.4% of the total EU budget. Key programmes such as competitiveness and innovation (CIP), trans-European networks (TENs) for transport and energy, lifelong learning, and the framework programme for research and technological development implemented the goals of the Lisbon strategy with increased financial resources. Internal flexibility of the EU financial framework enabled an adaptation and shift in funds between policy headings, which helped secure the future of the European satellite navigation system (Galileo) and the brand new European Institute of Technology (EIT). The 2007 margin for heading 1 (sub-heading 1a) doesn't take into account the appropriations related to European Globalisation adjustment Fund (EUR 500 million) to support workers affected by the changes in world trade patterns, assisting them with retraining and job searches.
- **Heading 1b – Cohesion for growth and employment:** the commitments for the Structural and Cohesion Funds increase by 14.8% compared to 2006 to EUR 45.5 billion (3.5% of the budget). Payments increase to EUR 37.8 billion representing a 33% increase compared to 2006.

Heading 2- Preservation and management of natural resources: this heading continues to receive valuable support representing 44.4% of the budget . This heading receives **EUR 56.25 billion** in commitments and EUR 54.7 billion in payments. Commitments for rural development will increase to EUR 12.4 billion (+3%), and budgetary support for environmental policy increases by 17.9%. Agricultural expenditure and direct aids remain fairly stable at EUR 42.7 billion. This heading includes the LIFE+ programme (environment) with a budget of EUR 240 million.

Heading 3: Citizenship, freedom, security and justice: with **EUR 1.25 billion in commitments** (and **EUR 1.18 billion in payments**), heading 3 only represents 1% of the budget but has progressed by almost 7% compared to 2006 and includes 2 sub-headings:

- **Heading 3a - Freedom, security and justice**: budget 2007 will fund the launch of a new generation of programmes necessary for the realisation of a European area of freedom, security and justice, notably in relation to fundamental rights and justice, security and safeguarding liberties, and solidarity and management of migration flows. Commitments increase by 12.8% to **EUR 623.8 million**.
- **Heading 3b - Citizenship**: under the umbrella of Citizenship, the Commission proposes a number of programmes which aim at promoting a better understanding of the European Union among its people, and addressing their daily concerns. For 2007, **EUR 623.2 million** is committed for improving health and consumer protection, for programmes to foster European culture and diversity, and for communication actions. Payments (ceiling of 1 billion) made under the EU Solidarity Fund, which may vary considerably from one year to the other, are included under this heading.

Heading 4 - the EU as a global player: the enlarged EU has a growing role to play as a global partner, and a total of **EUR 6.8 billion** is budgeted for 2007 to cover the policies of pre-accession, neighbourhood, development cooperation, humanitarian aid, democracy and human rights, the Common Foreign and Security Policy and the Stability Instrument. This represents an increase of 4.5% for the beneficiaries concerned. Overall, heading 4 sees a drop of 20% of its budget compared to 2006. The 2007 margin for heading 4 doesn't take into account the appropriations related to Emergency Aid Reserve (EUR 234.5 million).

Heading 5 - Administration: the increase for Administration (+5.1%), can largely be explained by the evolution in the number of posts, itself explained by the ongoing needs related to enlargement. This heading totals almost EUR 7 billion (commitments and payments) covering the expenditure of all EU institutions. It represents 5.5% of the total EU budget.

Heading 6 - Compensation: this heading concerns notably the enlargement process : it provides **EUR 444.6 million** (commitments/payments) to help improve cash-flow in the national budgets of the acceding states (Cash-Flow Facility), and to finance control actions at the new external borders of the EU (Schengen Facility), as agreed during the accession negotiations with Bulgaria and Romania.

2007 budget: section III, Commission

2006/2018(BUD) - 17/07/2006 - Council draft budget

The Council adopted, by qualified majority, the draft general budget of the European Communities for the financial year 2007. The Council used the preliminary draft budget of the European Communities for 2007, submitted by the Commission, as the basis for establishing the draft budget (refer to the summary dated 15.06.2006).

Under the draft budget established by the Council amounts to:

- **EUR 125 755 695 132 in commitment appropriations;**
- **EUR 114 612 819 366 in payment appropriations.**

Commitment appropriations have increase by 3.68% compared to the 2006 budget and payment appropriations by 2.26%.

The preliminary draft general budget (PDB) of the European Communities for 2007, as amended to take into account the final figures for estimates for institutions other than the Commission, forwarded to the Council by the Commission, comprises budget estimates totalling:

- EUR 126 776.05 million in appropriations for commitments (4.52% increase compared to 2006);
- EUR 116 370.05 million in appropriations for payments (3.83% increase with amending budgets 1 and 2/2006).

The draft budget shows that the rate of increase in non-compulsory expenditure (NCE) for the 2007 draft budget is 7.36% in commitment appropriations and 5.67% in payment appropriations.

The total payment appropriations provided for in the draft budget correspond **to 0.98% of Community GNI.**

A. Generally: the draft budget shows due regard to the Interinstitutional Agreements and takes into account the Council's conclusions on the budget guidelines for 2007. Particular care was taken to:

- apply budgetary discipline to all parts of the budget;

- provide adequate funding for the effective and efficient implementation of the European Union's various priorities, on the basis of well-defined needs and taking into account absorption capacities and past implementation rate;

- ensure limited and controlled growth of payment appropriations in comparison to 2006, taking into account the implementation rate of the past years;

- leave adequate margins below the ceilings for the Headings of the Financial Framework, except for sub-Heading 1b, for the purpose of sound financial management and to deal with unforeseen circumstances.

The establishment of the draft budget was, moreover, guided by the following principles:

- applying the key principle of assessing the well-defined and real needs to be financed in 2007;

- detailed analysis of the needs in all policy areas;

- figures deriving from a bottom-up approach and not fixed in advance;

- examination of guidelines for Pilot Projects and Preparatory Actions and inclusion of specific Pilot Projects, in accordance with the Interinstitutional Agreement;

- approach regarding administrative expenditure based on targeted measures and objective elements such as vacancy rates and past implementation;

- ensuring limited and controlled growth of appropriations for decentralised agencies by applying different criteria linked to their state of development ("settled agencies": budget 2006 - "growing

agencies ": budget 2006 +5% - "new agencies ": 75% of the increase between the 2006 budget and the 2007 PDB);

- taking into account the in-depth examination by delegations of a set of "activity statements" covering the whole range of political areas (ABB) by retaining specific reductions under some budget lines, based on the outcome of this examination (-2% or -3% of the PDB requests);

- examination in the autumn, as provided for in the Interinstitutional Agreement, of an Amending Letter concerning agricultural expenditure and International Fisheries Agreements, in order to take account of the updated estimates of requirements, without immediately ruling out a limited reduction in appropriations in these fields.

Regarding the nomenclature proposed in the PDB, the Council decided to modify certain headings (in particular Chapter 19 03 - CFSP and 19 06) and, as in the past, not to retain the European Development Fund (EDF).

B. Expenditure by heading of the financial framework:as to expenditure under the different Headings of the Financial Framework the Council decided to:

Heading 1 "Sustainable development":

Sub-heading 1a) "Competitiveness for growth and employment": the amount under this heading is set at **EUR 8 782 328 511.** This envelope is characterised by the following elements:

- set a level of commitment appropriations allowing an effective and efficient implementation of the competitiveness policy;

- include appropriations for the Community contribution to the International Fund for Ireland for an amount of EUR 15 million to be put into the reserve pending the adoption of the legal basis;

- agree on the inclusion of two Pilot Projects on the "knowledge triangle" and on "energy security-biofuel" for a total amount of EUR 10 million;

- ensure that pilot projects and preparatory actions are feasible and consistent with the EU's new priority actions and to examine their practical application. Specific areas for priority actions are the following:- Investment in knowledge and innovation; Business potential, especially of SMEs; Employment of priority categories; Energy Policy for Europe";

- limit the increase in appropriations in comparison to 2006 for subsidies for decentralised agencies (- EUR 8.78 million) and to reduce appropriations requested in the PDB under some budget lines following an examination of the relevant activity statements (- EUR 29 million);

- set the level of payment appropriations by reducing the amounts requested in the PDB under the relevant budget lines by a total amount of EUR 175.96 million, in line with absorption capacities and past implementation rate;

- set the margin available under sub-Heading 1a at EUR 135.67 million.

Sub-heading 1b) "Cohesion for growth and employment": the Council foresees an amount of E**UR 45 486 558 504.** It aims to:

- accept the PDB as regards commitment appropriations;

- set the level of payment appropriations by reducing the amounts requested in the PDB by a total amount of EUR 425 million under the budget lines related to the completion of the 2000-2006 programmes (- EUR 355 million) and the programmes prior to 2000 (- EUR 70 million), taking into account the current trend of completion of these programmes;

- set the margin available under sub-Heading 1b at EUR 440 000.

As regards payment appropriations, the Council asks the Commission to submit an amending budget if the appropriations entered in the 2007 budget are insufficient to cover expenditure under this sub-Heading.

In the context of advance payments 2007-2013, the Council attaches the greatest importance to a rapid approval by the Commission of the operational programmes and projects presented by Member States in relation with the new Structural and Cohesion Funds programmes for the 2007-2013 period. In order to avoid the past experience during the beginning of the 2000-2006 programming period, the Council will monitor rigorously and on a regular basis the process of approval of operational programmes and projects.

Heading 2 "Preservation and management of natural resources": the amount for this heading is set at **EUR 56 471 146 036.** The Council aims to:

- retain specific reductions in commitment and payment appropriations requested in the PDB for a total amount of EUR 365 million under the budget lines related to refunds for milk/super levy (- EUR 150 million), accounting clearance (- EUR 205 million) and programmes for deprived persons (- EUR 10 million);

- retain a limited reduction in commitment and payment appropriations requested in the PDB by an amount of EUR 365 million under all budget lines of Chapter 05 02 (Interventions in agricultural markets) except the above-mentioned budget lines on which specific reductions were already retained;

- retain a reduction in commitment and payment appropriations requested in the PDB for International fisheries agreements for an amount of EUR 10 million in the reserve, bearing in mind uncertainties regarding the conclusion of new agreements or the renewal of current agreements;

- limit the increase in appropriations in comparison to 2006 for subsidies for decentralised agencies (- EUR 1.3 million in c/a and p/a) and to reduce appropriations requested in the PDB under some budget lines following an examination of the relevant activity statements (- EUR 5.13 million in c/a and - EUR 4.27 million in p/a);

- set the final level of payment appropriations by reducing, in addition to the above-mentioned reductions in payment appropriations under this Heading, the amounts requested in the PDB under the relevant budget lines by a total amount of EUR 42.00 million, in line with absorption capacities;

- set the margin available under Heading 2 at EUR 1 879.85 million (the margin under market related expenditure is EUR 1 798.99 million).

Heading 3 "Expenditure relating to citizenship, freedom, security and justice": the amount set for this heading is **EUR 1 148 340 000.**

3a) "Freedom, security and justice": the Council aims to:

- retain an increase in appropriations requested in the PDB for the External Borders Fund for an amount of EUR 7.70 million bearing in mind its political importance;

- limit the increase in appropriations requested in the PDB for the Visa Information System by a reduction of EUR 7 million, taking into account absorption capacities;

- limit the increase in appropriations in comparison to 2006 for subsidies for decentralised agencies (- EUR 9.18 million), taking into account the specific situation of the "Frontex" Agency, and to reduce appropriations requested in the PDB under some budget lines following an examination of the relevant activity statements (- EUR 1.16 million);

- set the level of payment appropriations by reducing the amounts requested in the PDB under the relevant budget lines for a total amount of EUR 26.84 million, in line with absorption capacities and past implementation rate;

- set the margin available under sub-Heading 3a at EUR 75.30 million.

3b) "Citizenship": the Council aims to:

- retain a reduction in appropriations requested in the PDB under Chapter 16 03 ("Going local" communication) for a total amount of EUR 4 million;

- limit the increase in appropriations in comparison to 2006 for subsidies for decentralised agencies (- EUR 9.43 million), taking into account the specific situation of the Food Safety Authority, and to reduce appropriations requested in the PDB under some budget lines following an examination of the relevant activity statements (- EUR 2.98 million);

- set the level of payment appropriations by reducing the amounts requested in the PDB under the relevant budget lines for a total amount of EUR 31.59 million, in line with absorption capacities and past implementation rate;

- set the margin available under sub-Heading 3b at EUR 49.36 million.

Heading 4 "EU as a global partner": the Council foresees a total amount of **EUR 6 592 866 000.** It has also decided to:

- retain an increase in appropriations requested in the PDB for a total amount of EUR 20 million for Cross-border cooperation (+ EUR 3 million) and Iraq (+ EUR 17 million), bearing in mind their political importance;

- retain specific reductions in appropriations requested in the PDB:

  - § for a total amount of EUR 30 million for Macroeconomic assistance (- EUR 20 million) and Food aid (- EUR 10 million) taking into account past implementation rate;

  - § for a total amount of EUR 30 million for transition and institution building assistance to candidate countries taking into account absorption capacities;

  - § for a total amount of EUR 18 million under relevant budget lines in relation with expenditure in administrative management, taking into account the high amounts requested in the PDB;

- retain, in order to achieve sufficient margin for unforeseen events, a limited reduction of 2% in appropriations requested in the PDB for some geographical programmes and the Sugar protocol, leading to a global reduction of EUR 46.30 million;

- accept the amount as proposed in the PDB for CFSP budget and to modify the nomenclature of Chapter 19 03 (Common Foreign and Security Policy) and adapt the relevant comments in accordance with the provisions of the new Interinstitutional Agreement (IIA) and to change the title of Chapter 19 06 (Crisis response and global threats to security and adaptation) and the relevant comments;

- limit the increase in appropriations in comparison to 2006 for subsidies for decentralised agencies (- EUR 0.25 million) and to reduce appropriations requested in the PDB under some budget lines following an examination of the relevant activity statement (- EUR 5.11 million);

- set the level of payment appropriations by reducing the amounts requested in the PDB under the relevant budget lines for a total amount of EUR 185.95 million in line with absorption capacities and

past implementation rate;

- set the margin available under Heading 4 at EUR 219.66 million.

Heading 5 "Administration": the draft budget aims to:

- set an appropriate level for the administrative budget of each institution taking into account their own specificities and their real and justified needs;

- apply targeted reductions by limiting requested increases to 2% in comparison to 2006 for some types of expenditure such as Information Technology services and by retaining specific decreases on some other individual budget lines taking into account real needs;

- apply a differentiated rate of reduction on current expenditure related to productivity gains and the impact of interinstitutional cooperation (between 1.5% to 2.5% taking into account the past implementation in 2004 and 2005) on budget lines which have not been subject to specific reductions;

- increase the standard flat rate abatement on salaries for most institutions, taking into account their current vacancy rate;

- accept all new posts requested in relation to the accession of Romania and Bulgaria;

- accept all new posts requested in relation to translation into Irish;

- accept all new posts requested in relation to the 2004 enlargement, and putting appropriations for the new AST posts for the Commission in reserve to be released following proof of significant progress in the recruitment on posts related to the 2004 enlargement that were granted in the previous year. As regards recruitment in relation with the 2004 enlargement, the Council notes with great concern the lack of progress made in this area and calls on EPSO to ensure that the recruitment process is sufficiently and speedily carried forward at every stage in order to occupy the posts granted;

- set the margin available under Heading 5 at EUR 285.19 million to respect the IIA and in the interest of sound financial management.

Heading 6"Compensations": the Council sets an amount of **EUR 444 646 152.** It accepts the PDB and sets the margin available under this Heading at EUR 35 000 million.

Heading 7"Revenue": the Council accepts the PDB and the Letter of Amendment No 1/2006, subject to the technical adjustments arising from the changes made to expenditure and staff in the draft budget.

2007 budget: section III, Commission

2006/2018(BUD) - 30/11/2006 - Council amended draft budget

On 30 November 2006, after having deliberated with the Commission, the Council of the European Union carried out a second reading of the draft general budget of the European Communities for 2007 in accordance with Article 272(5) of the EC Treaty.

The Council held its customary meeting with a delegation from the European Parliament on 21 November 2006, led by Mr Janusz LEWANDOWSKI, Chairman of the Committee on Budgets, and comprising of Mr Gérard ONESTA (Vice-President of the European Parliament), Mr Reimer BÖGE (ViceChairman of the Committee on Budgets), Mr Jan MULDER (Vice-Chairman of the Committee on Budgets), Mr Ralf WALTER (Vice-Chairman of the Committee on Budgets), Mr James ELLES, Rapporteur for Section III (Commission) of the budget for 2007, Mr Louis GRECH, Rapporteur for the other Sections of the budget for 2007.

Main results of the Council's second reading of the Draft Budget for 2006:

In assessing the outcome of the European Parliament's first reading of the Draft Budget for 2007, the Committee was guided by the following principles:

- it ensured compliance with the annual expenditure ceilings set by the Financial Framework;
- it adopted a limited and controlled growth of the volume of payment appropriations taking into account in particular the constraints upon national budgets;
- it ensured compliance with the relevant provisions regarding the placing of appropriations in reserve, the classification of expenditure, legal bases, preparatory measures and pilot programmes; in this context, it restated the Council's opposition to the European Parliament using conditional reserves in what it considers to be a breach of the Financial Regulation.

Main expenditures by budget heading:

The draft budget as drawn up on the basis of a total level of payment appropriations of **EUR 114 326 533 538** (the equivalent of **0.98% of GNI**) and **EUR 126 095 484 304** in commitment appropriations. On this basis, the amounts approved by the Council in the second reading are as follows (in payment appropriations only):

- **Heading 1: Sustainable growth**: EUR 44 137 342 319 broken down into:
  - 1a: Competitiveness for growth and employment: EUR 6 772 076 511;
  - 1b: Cohesion for growth and employment: EUR 37 365 265 808;
- **Heading 2: Preservation and management of natural resources**: EUR 54 665 465 736;
- **Heading 3: Citizenship, freedom, security and justice**: EUR 1 049 687 652 broken down as such:
  - 3a: Freedom, security and justice: EUR 400 145 000;
  - 3b: Citizenship: EUR 649 542 652;
- **Heading 4: The EU as a global partner**: EUR 7 179 921 578;
- **Heading 5: Administrative expenditure**: EUR 6 849 470 101.

The other results of the Council's discussions at second reading, Letters of Amendment Nos. 2 and 3 included, are as follows:

- **Sub-heading 1a (Competitiveness for growth and employment):** an **increase of 11.3%** in commitments is noted compared to the 2006 budget. It aims to approve Letter of Amendment No. 2 to the Preliminary Draft Budget for 2007 as regards only the European Global Adjustment Fund and Hercule II programme and maintains the Draft Budget established by the Council for the other budget lines. The Council underlines the need to ensure that Pilot Projects and Preparatory Actions are feasible and consistent with the EU's new priority actions and to examine their practical application. In this context it considers it appropriate that the Commission takes the relevant initiatives in the annual budget process to develop the various Pilot Projects and Preparatory Actions within the financial limits set in the IIA, in a comprehensive and coordinated manner. Without prejudice of Member States' competences, specific areas for priority actions are the following: Investment in knowledge and innovation; Business potential, especially of SMEs; Employment of priority categories and Energy Policy for Europe.

- **Sub-heading 1b (Cohesion for growth and employment)**: **an increase of 14.8%** in commitments compared to the 2006 budget is highlighted. It aims to maintain the Draft Budget established by the Council with regard to this sub-heading. The following Council declarations were agreed:

i) **payment appropriations**: the Council asks the Commission to submit an amending budget if the appropriations entered in the 2007 budget are insufficient to cover expenditure under sub-Heading 1b (Cohesion for growth and employment) and Heading 2 (Market related expenditure and direct payments) and Heading 5 (Administration);

ii) **advance payments 2007-2013**: the Council attaches the greatest importance to a rapid approval by the Commission of the operational programmes and projects presented by Member States in relation with the new Structural and Cohesion Funds programmes for the 2007-2013 period. The Commission is requested to provide specific monitoring tools, including a flow chart, at the latest by the end of May 2007.

- **Heading 2 (Preservation and management of natural resources)**: **a decrease of 0.5%** is highlighted compared to the 2006 budget. It approves Letter of Amendment No. 3 to the Preliminary Draft Budget for 2007 and maintains reductions in comparison to the PDB with regard to some budget lines related to Agriculture which are not affected by Letter of Amendment No. 3 (EUR 120.6 million); it accepts the Pilot Project on Sustainable agriculture (05 01 04 08); and maintains the Draft Budget established by the Council with regard to the other budget lines of Heading 2.

- **Heading 3 (Freedom, security and justice**): to maintain the Draft Budget established by the Council with regard to freedom, security and justice (sub-Heading 3a of the Financial Framework).

- **Sub-heading 3b (citizenship)**: **a decrease of 3.9%** in commitments is noted compared to 2006. It maintains the Draft Budget established by the Council with regard to this heading apart from budget line 15 06 06 (Special annual events) (+ EUR 1.5 million in c/a and p/a).

- **Heading 4 (the EU as a global partner)**: **a decrease of 22.8%** in commitments is shown. It maintains the Draft Budget established by the Council with regard to the EU as a global partner apart from budget lines 05 05 01 01 (SAPARD) (-EUR 81.6 million in p/a) and 19 10 01 (Cooperation with developing countries in Asia) (+ EUR 42.87 million in c/a).

- **Heading 5 (Administrative expenditure)**: **an increase of 3.7%** in commitments is noted. It maintains the Draft Budget established by the Council with regard to administrative expenditure apart from amendments to the European Parliament's own budget section which were accepted ("Gentlemen's Agreement").

2007 budget: section III, Commission

2006/2018(BUD) - 14/07/2006

The Council agreed by qualified majority on the draft general budget for 2007 at first reading after a conciliation meeting with the European Parliament and the Commission. The adoption under "A" items - without discussion - of the draft budget will take place at the General Affairs and External Relations Council on **17 July 2006**.

The Commission submitted a preliminary draft budget in spring 2006. As usual, this draft budget will be examined and amended by the European Parliament at first reading in autumn 2006. The Commission will submit a customary "ad hoc" Letter of Amendment in autumn before the second reading by the Council, scheduled for November 2006.

Before examining and establishing the draft budget for the financial year 2007, the Council held its customary meeting with a delegation from the European Parliament in the framework of the Interinstitutional Agreement. The delegation was led by Mr Janusz **LEWANDOWSKI**, Chairman of the Committee on Budgets, and comprised:

§ Mr James **ELLES** (Rapporteur for Section III (Commission) of the 2007 budget), Louis **GRECH** (Rapporteur for Other Sections of the 2007 budget);

§ Mr Reimer **BOGE**, Ms Ingeborg **GRAβLE**, Ms Catherine **GUY-QUINT**, Ms Anne **JENSEN**, Mr Jan **MULDER**, Mr Giovanni **PITTELLA**, Mr Paul **RUBIG**, Mr Antonis **SAMARAS**, Mr Esko **SEPPANEN**, Mr Laszlo **SURJAN**, Ms Helga **TRUPEL**, Mr Kyosti **VIRRANKOSKI** and Mr Ralf **WALTER**, members of the European Parliament.

Ms Dalia **GRYBAUSKAITE**, member of the European Commission, took part in the conciliation meeting.

This meeting, which had been prepared by a trialogue on 10 July 2006, covered the general outline of the 2007 budget and the following specific items related to the Budget 2007:

a) Agriculture: the European Parliament and the Council agreed to resume examination of agricultural expenditure on the basis of the Letter of Amendment to be presented by the Commission in the autumn;

b) International fisheries agreements: the Council and the European Parliament agreed to resume discussion of this question in November on the basis of the Letter of Amendment that the Commission would be submitting in the autumn;

c) Common Foreign and Security Policy (CFSP): the European Parliament and the Council will aim at reaching an agreement on the amount of the CFSP budget for 2007 in November at the latest, under the provisions of the Inter Institutional Agreement;

d) Pilot Projects and Preparatory Actions: the Council took note of the specific comments made by the European Parliament and the Commission on the Council's proposals and stated that the negotiations would continue.

As regards administrative expenditure, the Council planned to **suppress 500posts** from the Commission **by2010**.

After the meeting with the European Parliament, and on the basis of the preparatory work done by the Permanent Representatives Committee and during the conciliation meeting with the European Parliament, the Council confirmed by a qualified majority the agreement reached by the Permanent Representatives Committee on the draft general budget for 2007 (please refer to the summary of the draft budget 2007 dated 17 July 2006).

The Council gives a mandate to the Presidency, assisted by the General Secretariat of the Council, to establish budget documents and forward them to the European Parliament in accordance with the planned timetable.

2007 budget: section III, Commission

2006/2018(BUD) - 30/11/2006 - Amending/supplementary letter on draft budget

PURPOSE: to establish Letter of Amendment No. 3 to the Draft General Budget of the European Communities for the financial year 2007 as fully proposed by the Commission.

CONTENT: to recall, on 30 October 2006, the Commission forwarded to the Council Letter of Amendment No. 3 to the Preliminary Draft Budget for the financial year 2007. In accordance with the provisions of the Interinstitutional Agreement of 17 May 2006, the Commission has made a new estimate of agricultural expenditure as compared with the Preliminary Draft Budget for 2007.

The new estimates drawn up by the Commission take account of the situation on the various agricultural markets as well as trends in agricultural legislation. They also take account of the impact of updating the euro/dollar exchange rate recorded during the first quarter, which goes up from 1.20 in the PDB to 1.27 (EUR 1 = USD 1.27) and has the effect of increasing needs by about EUR 78 million compared to the Preliminary Draft Budget.

The new assessment leads to **lower overall needs than estimated in the 2007 PDB (EUR 852 million)**. The savings result mainly from decreased needs in the sectors of:

- decoupled direct aids (- EUR 513 million);
- other direct aids (- EUR 269 million);
- cereals (EUR 178 million);
- fruit and vegetables (- EUR 83 million);
- beef and veal sector (- EUR 35 million);
- milk and milk products (- EUR 31 million).

However, these savings have been partly offset by **increased needs for other sectors**, notably:

- POSEI programmes (+ EUR 95 million);
- sugar (+ EUR 88 million);
- products of the wine-growing sector (+ EUR 76 million);
- exceptional market-support measures for the poultry meat and eggs sector (+ EUR 60 million).

In addition, the Letter of Amendment proposes to reduce the reserve line for International Fisheries Agreements by EUR 86 million and to increase the corresponding operational line by the same amount, in view of the entry into force of the Fisheries Partnership Agreement between the EC and the Islamic Republic of Mauritania. The net overall financial impact of this transaction is zero.

Lastly, the Letter of Amendment proposes changes in the nomenclature covering the Single Area Payment Scheme, Fishery products and Fisheries market, as well as budgetary remarks concerning POSEI items and the settlement of disputes article.

2007 budget: section III, Commission

2006/2018(BUD) - 30/11/2006 - Amending/supplementary letter on draft budget

PURPOSE: to present the revised letter of amendment 2 to the draft budget 2007.

CONTENT: on 28 September 2006, the Commission forwarded to the Council Letter of Amendment No. 2 to the Preliminary Draft Budget for the financial year 2007.

This Letter of Amendment concerns expenditure under Section III – Commission – of the Community budget and covers the following elements:

a) Changes with net financial effect:

- § creation of a new article 40 02 43 (Reserve for the European Globalisation Adjustment Fund) with **EUR 500 million** in commitment appropriations for the European Globalisation Adjustment Fund (EGF);
- § inclusion of **EUR 15 million** in commitment appropriations into the reserve for line 13 03 12 (Community contribution to the International Fund for Ireland) pending the adoption of the proposal for a new Council Regulation on Community financial contributions to the International Fund for Ireland (IFI);
- § increase of **EUR 6 million** in commitment appropriations and of EUR 4.4 million in payment appropriations in the reserve of line 24 02 01 (General measures to combat fraud (Hercule II)), following the proposal for a Decision amending and extending Decision 804/2004/EC on a Community action programme to promote activities in the field of the protection of the Community's financial interests (Hercule II);
- § changes reflecting the variation in the components of Heading 1b in the legal bases that have been adopted, relative to the respective envelopes that were known at the time of preparation of the PDB 2007. The net increase is **EUR 8.4 million** in payment appropriations.

b) Changes with no financial effects which mostly involve the updating of budgetary remarks and other technical adjustments.

On 28 November 2006, the European Parliament and the Council reached an agreement on Letter of Amendment No.2 on the following elements:

- to accept the creation of a new article 40 02 43 (Reserve for the European Globalisation Adjustment Fund) with **EUR 500 million** in commitment appropriations for the European Globalisation Adjustment Fund (EGF);

- to accept the increase of **EUR 6 million** in commitment appropriations and of EUR 4.4 million in payment appropriations in the reserve of line 24 02 01 (General measures to combat fraud (Hercule II)).

Other elements included in the Letter of Amendment No.2 to the Preliminary Draft Budget for the financial year 2007 were not accepted.

Regarding the increase of **EUR 15 million** in commitment appropriations in the reserve proposed by the Commission for the International Fund for Ireland (IFI), the Council has already included them when establishing its 2007 Draft Budget, therefore the amount remains as adopted in the Draft Budget.

On 30 November 2006, the Council established the revised Letter of Amendment 2/2007 to the Draft Budget on the basis of the above mentioned (and as set out in the technical annex to this explanatory memorandum : Council document *15783/06*).

2007 budget: section III, Commission

2006/2018(BUD) - 14/03/2006

The Council adopted the following conclusions, which will serve as the basis for discussions with the European Parliament and the Commission on preparation of the EU's general budget for 2007.

The Council underlines the fact that the budgetary procedure for 2007 will be marked by two important elements:

- § the new Financial Perspective for 2007-2013 to be agreed;
- § the forthcoming accession of two countries to the EU to be confirmed. This should clearly be reflected in the Preliminary Draft Budget (PDB) for 2007.

The Council reaffirms the importance of maintaining a framework of overall **budget discipline** it reiterates its wish that the EU budget for 2007 should provide sufficient resources to implement the various policies of the EU effectively and efficiently. It emphasises that it should apply the same degree of budgetary constraint as exercised by the Member States of the EU for their own national budgets.

The Council is convinced of the importance of good collaboration between the two arms of the Budgetary Authority and the Commission, and looks forward to establishing a good spirit of cooperation for the 2007 budget procedure.

The Council confirms that the forthcoming Interinstitutional Agreement (IIA) on budgetary discipline and improvement of budgetary procedure covering the period 2007-2013 will constitute the basis for establishing the budget for 2007. It recalls its constant willingness to apply the IIA to the full. It lays great emphasis on compliance with the Financial Perspective, which requires that Community expenditure remains within the annual limits to be set therein.

For the purpose of **sound financial management** and to deal with unforeseen circumstances it is important that sufficient margins must be maintained under all the ceilings of the various Headings, with the exception of Heading 1b, especially in the first year of the new financial period.

It emphasises that the appropriations for 2007 should reflect real and well-defined needs and be compatible with the ceilings set in the Financial Perspective. Absorption capacity and past implementation should also be taken into account when establishing appropriations. It considers that all appropriations need to be reviewed in detail for each policy sector and in this context it reaffirms the importance of reallocation in order to allow the Budgetary Authority to make the necessary financial adaptations to meet present and future needs. For this purpose it points to the necessity of having high quality Activity Statements and financial information on spending proposals in good time.

The Council considers it important that the implementation of the EU budget is improved in 2007 so that the significant under-implementation of funds that occurred in the first years of the Financial Perspective 2000-2006 should be avoided. Therefore the Council stresses the importance of the adoption of implementing rules and guidelines where applicable by the Commission on the basis of the adopted regulations in due time in 2006 in order to enable implementation to start in an efficient way by 1 January 2007. In this context, the Council underlines the need for explicit and simple rules.

The Council stresses once again the importance of keeping a tight grip on **payment appropriations**. The level of payment appropriations entered into the budget should be sufficient but not overestimated, taking into account past implementation and the genuine requirements for 2007. It looks forward to continued improvement of the "Activity Based Budgeting" in 2007 assisted by the introduction of specific, measurable, achievable, relevant and timely objectives, appropriate performance indicators and full evaluation procedures into all Community programmes with implications for the EU budget, as specified in the Financial Regulation.

In order to facilitate the transition between the Financial Perspective 2000-2006 and the one for 2007-2013, the Council invites the Commission to present the appropriate information which allows the comparison between the implementation of the 2005 budget, the 2006 budget and the 2007 PDB, at the start of the budget procedure for 2007.

As regards certain specific issues of the budget, the Council identifies the following elements as important in preparing the 2007 budget:

- § establishing an accurate level of payment appropriations for structural funds and simplification of procedures aimed at facilitating implementation;
- § presenting realistic forecasts regarding CAP expenditure in its Preliminary Draft Budget. Particular attention should be given to ensuring that the payment appropriations for expenditure related to rural development are accurate;
- § as regards external actions, sufficient margins within the ceiling are crucial in order to be able to respond to unforeseen actions and crises;
- § underlining the need to ensure that pilot projects and preparatory actions are feasible and consistent with the EU's new priority actions and to examine their practical application. In this context it considers it appropriate that the Commission takes the relevant initiatives in the annual budget process to develop the various pilot projects and preparatory actions within the financial limits set in the IIA, in a comprehensive and co-ordinated manner.

The Council underlines the great importance that it attaches to these guidelines in the forthcoming budgetary procedure and expects them to be fully taken into account already in the Preliminary Draft Budget for 2007. These guidelines will be forwarded to the European Parliament and the Commission.

2007 budget: section III, Commission

2006/2018(BUD) - 17/07/2006 - Document attached to the procedure

This Council document presents the financial information on the European Development Funds (EDFs). For a more detailed account of this document please refer to the summary dated 19/06/2006 of COM(2006)0317.

2007 budget: section III, Commission

2006/2018(BUD) - 17/10/2006 - Amending/supplementary letter on draft budget

To recall, on 28 September 2006, the Commission forwarded to the Council Letter of Amendment No. 2 to the Preliminary Draft Budget for the financial year 2007 (refer to the summary dated 26/09/2006).

This Letter of Amendment concerns expenditure under Section III – Commission – of the Community budget and covers the following elements:

a) Changes with net financial effect:

- § creation of a new article 40 02 43 (Reserve for the European Globalisation Adjustment Fund) with EUR 500 million in commitment appropriations for the European Globalisation Adjustment Fund (EGF);

- § inclusion of EUR 15 million in commitment appropriations into the reserve for line 13 03 12 (Community contribution to the International Fund for Ireland) pending the adoption of the proposal for a new Council Regulation on Community financial contributions to the International Fund for Ireland (IFI);

- § increase of EUR 6 million in commitment appropriations and of EUR 4.4 million in payment appropriations in the reserve of line 24 02 01 (General measures to combat fraud (Hercule II)), following the proposal for a Decision amending and extending Decision No. 804/2004/EC on a Community action programme to promote activities in the field of the protection of the Community's financial interests (Hercule II);

- § changes reflecting the variation in the components of Heading 1b in the legal bases that have been adopted, relative to the respective envelopes that were known at the time of preparation of the PDB 2007. The **net increase is EUR 8.4 million** in payment appropriations.

b) Changes with no financial effect such as updating budgetary remarks and other technical adjustments.

On 17 October 2006, the Council established Letter of Amendment No. 2 to the 2007 Draft Budget as submitted by the Commission with the exclusion of:

- § EUR 500 million in commitment appropriations in the reserve for the European Globalisation Adjustment Fund (EGF);

- § EUR 6 million in commitment appropriations and of EUR 4.4 million in payment appropriations in the reserve for the Hercule II Programme.

Regarding the increase of EUR 15 million in commitment appropriations in the reserve proposed by the Commission for the International Fund for Ireland (IFI), the Council has already included them when establishing its 2007 Draft Budget, therefore the amount remains as adopted in the Draft Budget.

This Letter of Amendment No. 2 is forwarded to the European Parliament on the basis of the timetable discussed.