COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.7.2004
COM(2004) 498 final

COMMISSION WORKING DOCUMENT

Proposal for renewal of the INTERINSTITUTIONAL AGREEMENT on budgetary discipline and improvement of the budgetary procedure
EXPLANATORY MEMORANDUM

The enclosed draft Interinstitutional Agreement (IIA) on budgetary discipline and improvement of the budgetary procedure is intended as a working paper for the negotiations between the European Parliament, the Council and the Commission.

The purpose of this Interinstitutional Agreement is to provide a set of agreed rules concerning the management of the multiannual financial framework and the sequence of operations as regards the annual budgetary procedure.

Guidelines for a new agreement on budgetary discipline

Maintaining the fundamentals

Agenda 2000 successfully fulfilled its main purposes as regards financial discipline, the orderly evolution of expenditure and interinstitutional collaboration during the budgetary procedure. The Budget of the European Union has been adopted on time each year, and the two arms of the budgetary authority have jointly adjusted Agenda 2000 to face supplementary financial requirements linked to the enlargement to ten new member States.

The present Interinstitutional agreement therefore proposes to maintain unchanged the main features of the financial framework:

– expenditure is broken down by broad categories of expenditure called headings; for each year of the 2007-2013 period;

– maximum amounts called ceilings are established in the financial framework table for the period 2007-2013 (see Annex I) in terms of appropriations for commitments and for each heading;

– overall annual amounts are expressed both for commitment appropriations and payment appropriations;

– the annual ceiling for payment appropriations must respect the own resources ceiling currently established at 1,24 % of the EU gross national income (GNI).

Simplification, consolidation

The present Interinstitutional Agreement provides for the renewal of the Interinstitutional Agreement of 6 May 1999 in the light of experience acquired with its implementation but also for the consolidation of all the joint declarations and interinstitutional agreements concluded on budgetary matters since 1982.

In particular, the present agreement aims at incorporating the Interinstitutional Agreement of 7 November 2002 on the creation of the European Union Solidarity Fund (EUSF), agreed upon during the current period of the financial perspective. It is proposed that the EUSF develops into a European Solidarity and Rapid Reaction instrument.

In the perspective of future institutional developments, the present Interinstitutional Agreement proposes to replace the term 'financial perspective' with 'multiannual financial framework', also referred to as the 'financial framework'.
Flexibility and transparency: taking stock of the experience of Agenda 2000

Flexibility within the agreed multiannual financial framework is the essential corollary to financial discipline. If properly designed, it contributes to enhancing effective resources allocation while allowing responding to unforeseen needs or new priorities. Several parameters influence the degree of flexibility of the financial framework: the length of the period covered by the financial perspective; the number of expenditure headings; the margins available within each expenditure ceiling; the margin below the own resources ceiling; the share of EU spending pre-determined by ‘amounts of reference’ in co-decided legislation; pre-allocated multiannual programmes; the general attitude towards using the revision procedure.

The degree of flexibility has evolved over time with the changing mix of those parameters. Agenda 2000 has so far succeeded in answering unforeseen challenges to the EU budget, though that has been done at the price of greater complexity and lower transparency, without necessarily improving effective resource allocation. The existing instrument of flexibility and the European Union Solidarity Fund (EUSF) had to be created outside the financial perspective to respond to acknowledged needs. The actual use of the instrument of flexibility reveals a departure from its original purposes which risks weakening the credibility of the system and undermining the interinstitutional collaboration on budgetary matters. The Commission considers that more transparent instruments fully integrated in the financial framework would reinforce budgetary discipline. The Commission proposes the following measures to address future challenges and find the proper balance between budgetary discipline and efficient resources allocation.

(1) First, the procedure to revise expenditure ceilings should be given its original role as the main instrument to allow adjustments to the financial framework when substantial and lasting changes in political priorities occur. To give the revision procedure its original role, the Commission proposes a regular review of needs, e.g. in the form of a triilogue meeting between Parliament, Council and the Commission ahead of the presentation of each preliminary draft budget.

(2) Secondly, the intensive use of the flexibility instrument during Agenda 2000 shows its creation was justified. However, this instrument does no longer fulfil its original purposes and, to a large extent, has been used as an indirect means to raise the ceiling for external actions. Such a departure from its original purposes risks weakening the credibility of the system and undermining the interinstitutional collaboration on budgetary matters. Therefore the Commission proposes a new reallocation flexibility, replacing the existing ‘flexibility instrument’, which would allow the budgetary authority on a Commission proposal to re-allocate appropriations between expenditure headings within certain limits and within the overall ceilings.

(3) Thirdly, the creation of a growth adjustment fund is proposed to adjust the financial framework to economic environment. The growth adjustment fund can be mobilised up to €1 billion within the ‘competitiveness for growth and employment’ expenditure heading (1a). This amount may be increased by unused appropriations from the Structural instruments, when the situation allows, in application of the N+2 rule, up to a maximum of €1 billion per year.

(4) Fourthly, the proposed new classification of expenditure is also going to enhance flexibility and the effective allocation of resources by avoiding unnecessary ring-fencing.
The structure of expenditure in Agenda 2000 is to a large extent the legacy of the establishment of the first financial perspective and its successors. It is structured in 8 expenditure headings, which become 11 when taking sub-headings into account. Ring-fencing of resources in a large number of headings and sub-headings makes the system rigid and can prevent proper adjustment and a more effective use of resources to achieve the Union’s policy goals, thus hindering the ultimate goal to have budgetary means at the service of a policy objective.

A more limited number of budgetary headings not only reflects the broad policy goals, but also provides the necessary room for manoeuvre for developments that cannot always be precisely predicted many years in advance. For the 2007-2013 financial framework, the Commission proposes five main expenditure headings which appear in the financial framework table (see Annex I).

(5) Finally, it is proposed to include the European Solidarity and Rapid Reaction Instrument within the financial framework for budgetary discipline and transparency purposes. The creation of its predecessor, the European Union Solidarity Fund, outside the financial framework revealed that, in the absence of sufficient flexibility within the FP, ways would be found around it in case of need. The Commission believes that this instrument remains necessary but proposes to integrate it fully in the multiannual financial framework.

Consequence for the Regulation on budgetary discipline

The experience with the 2000-2006 financial perspective has shown that there is no longer any need for maintaining the agricultural guideline foreseen in Council Regulation no. 2040/2000 on budgetary discipline, since agriculture expenditure is already constrained by ceilings agreed till 2013. The other provisions concerning budget discipline for agriculture will be overtaken and reinforced by the proposed new Regulation (articles 18-20) on the financing of the common agricultural policy. With the shift from market intervention towards direct payments to farmers and rural development measures agriculture expenditure has also become more predictable.

The monetary reserve does no longer exist, and the enclosed proposals for the renewal of the interinstitutional agreement would no longer require ad-hoc provisions concerning the reserves for external operations and for emergency aid.

Under these conditions, the Commission considers that Council Regulation no. 2040/2000 should be repealed. The Commission will accordingly propose the appropriate legal act in due time.

Guidelines on interinstitutional collaboration for the budgetary procedure

Provisions included in Part II aim at improving the annual budgetary procedure. Most of these provisions result from budgetary practice or previous agreements and declarations. They have been updated in relation with the new financial regulation\(^1\). The annexes I to IV form an integral part of the present proposed agreement.

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Structure and classification of expenditure

Annex III provides an update of the classification of expenditure between compulsory and non-compulsory expenditure for the new structure by heading. A provision is maintained so that the two arms of the budgetary authority determine the classification of new budget items within the annual conciliation procedure.

Financial provisions in legislative instruments

The principle set out in the Joint Declaration of 6 March 1995, and incorporated in point 33 of the Interinstitutional Agreement of 6 May 1999, whereby the institutions undertake to comply during the budgetary procedure with the reference amounts adopted in the legislative codecision procedure, is maintained. However, the codecision procedure has been regularly extended since 1995 and the strict provisions as regards reference amounts impose increasing constraints for budgetary policy. The Commission therefore proposes that the budgetary authority and the Commission, when drawing up its preliminary draft budget, are given a margin of manoeuvre through the possibility to depart from these amounts by a limited margin (5%).

Conclusion

The Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure has proved an efficient tool to frame the annual budgetary practice within an agreed multiannual financial framework. Its renewal should be taken as an opportunity to update and simplify the various existing agreements and joint declarations concerning budgetary matters. Finally, this agreement aims at improving flexibility devices and transparency in order to find the proper balance between budgetary discipline and efficient resources allocation.
between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure

NB: in view of the possible entry into force of the Constitution in the course of the next financial perspective, the definition 'multiannual financial framework' replaces 'financial perspective' in the following draft.

Comments are referred to changes vis-à-vis the text of the Interinstitutional Agreement of 6 May 1999.

<table>
<thead>
<tr>
<th>Text of the IIA</th>
<th>Comments</th>
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<tbody>
<tr>
<td>1. The purpose of this Agreement concluded between the European Parliament, the Council and the Commission, hereafter referred to as the institutions', is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters.</td>
<td></td>
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<tr>
<td>2. Budgetary discipline under this Agreement covers all expenditure. It is binding on all the institutions involved in its implementation for as long as the Agreement is in force.</td>
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<tr>
<td>3. This Agreement does not alter the respective budgetary powers of the various institutions, as laid down in the Treaties. Where reference is made to this point in the present text, the Council will act by a qualified majority and the European Parliament by a majority of its members and three fifths of the votes cast, in compliance with the voting rules laid down in the fifth subparagraph of Article 272(9) of the Treaty establishing the European Community (hereafter referred to as the 'EC Treaty').</td>
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<tr>
<td>4. Any amendment of this Agreement requires the consent of all the institutions which are party to it. Changes to the multiannual financial framework must be made in accordance with the procedures laid down for this purpose in this Agreement.</td>
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</table>
5. This Agreement is in two parts:
   – Part I contains a definition and implementing provisions for the multiannual financial framework\(^2\) 2007 to 2013 and applies for the duration of that financial framework,
   – Part II relates to improvement of interinstitutional collaboration during the budgetary procedure.

6. Whenever it considers it necessary and at all events at the same time as any proposal for a new financial framework presented pursuant to paragraph 29, the Commission will present a report on the application of this Agreement, accompanied where necessary by proposed amendments.

7. This Agreement enters into force on 1 January 2007. It replaces with effect from the same date:
   – the Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure\(^3\),
   – the Interinstitutional Agreement of 7 November 2002 between the European Parliament, the Council and the Commission on the financing of the European Union Solidarity Fund supplementing the Interinstitutional Agreement of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure\(^4\).

\(^2\) The multiannual financial framework is also referred to as ‘the financial framework’ in the present agreement.

\(^3\) OJ C 172, 18.6.1999, p. 1. This Interinstitutional Agreement already replaced and declared obsolete the following instruments:

### PART I – FINANCIAL FRAMEWORK 2007 to 2013: DEFINITION AND IMPLEMENTING PROVISIONS

#### A. Contents and scope of the financial framework

8. The 2007 to 2013 financial framework, set out in Annex I, forms an integral part of this Agreement. It constitutes the reference framework for interinstitutional budgetary discipline. Its contents are consistent with the conclusions of the [...] European Council [...].

9. The financial framework is intended to ensure that, in the medium term, European Union expenditure, broken down by broad category, develops in an orderly manner and within the limits of own resources.

10. The 2007 to 2013 financial framework establishes, for each of the years and for each heading or subheading, amounts of expenditure in terms of appropriations for commitments. Overall annual totals of expenditure are also shown in terms of both appropriations for commitments and appropriations for payments. All these amounts are expressed in 2004 prices. The financial framework does not take account of budget items financed by earmarked revenue within the meaning of Article 18 of the Financial Regulation of 25 June 2002 applicable to the general budget of the European Communities\(^5\), hereafter referred to as the 'Financial Regulation'.

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**Modifications:**
- General updating
- § 4 deleted (void): no specific heading for pre-accession expenditure is proposed.
- §5 deleted: this paragraph is no longer relevant since the Commission proposes to include the European Development Fund in the financial framework.
- §6: Deletion of the reference to agricultural guideline (see explanatory memorandum above).
- For adjustments concerning specific headings, see Point 15 below.
11. The institutions acknowledge that each of the absolute amounts shown in the 2007 to 2013 financial framework represents an annual ceiling on expenditure under the general budget of the European Communities. Without prejudice to any changes in these ceilings in accordance with the provisions contained in this Agreement, they undertake to use their respective powers in such a way as to comply with the various annual expenditure ceilings during each budgetary procedure and when implementing the budget for the year concerned.

§2 deleted (void): no specific heading for pre-accession expenditure is proposed for the financial framework 2007-2013.

12. The two arms of the budgetary authority agree to accept, for the duration of the 2007 to 2013 financial framework, the maximum rates of increase for non-compulsory expenditure deriving from the budgets established within the ceilings set by the financial framework.

For the purposes of sound financial management, the institutions will ensure as far as possible during the budgetary procedure and at the time of the budget's adoption that sufficient margins are left available beneath the ceilings for the various headings.

13. No act adopted under the co-decision procedure by the European Parliament and the Council nor any act adopted by the Council which involves exceeding the appropriations available in the budget or the allocations available in the financial framework in accordance with paragraph 11 may be implemented in financial terms until the budget has been amended and, if necessary, the financial framework has been appropriately revised in accordance with the relevant procedure for each of these cases.

14. For each of the years covered by the financial framework, the total appropriations for payments required, after annual adjustment and taking account of any other adjustments or revisions, must not be such as to produce a call-in rate for own resources that exceeds the ceiling in force for these resources.

If need be, the two arms of the budgetary authority will decide, in accordance with Point 3 of the present Agreement, to lower the ceilings set in the financial framework in order to ensure compliance with the ceiling on own resources.

Modifications:
- § 2: the specific nature of Heading 2 in Agenda 2000, which only covered pre-allocated expenditure, no longer exists. Appropriations for structural operations are mainly entered under heading 1b, which also covers non-pre-allocated expenditure.
- § 3 deleted: the corresponding provision has been inserted in Part II, Article 39.
B. Annual adjustments of the financial framework

Technical adjustments

15. Each year the Commission, acting ahead of the budgetary procedure for year n+1, will make the following technical adjustments to the financial framework in line with movements in gross national income (GNI) and prices:
(a) revaluation, at year n+1 prices, of the ceilings and of the overall figures for appropriations for commitments and appropriations for payments;
(b) calculation of the margin available under the own resources ceiling.
The Commission will make these technical adjustments on the basis of the most recent economic data and forecasts available. However, the technical adjustment for the Common Agricultural Policy (The European Agricultural Guarantee Fund and the European Agricultural Rural Development Fund), the Structural Funds of Heading 1b, the Cohesion Fund and the European Fund for fisheries will be based on a deflator of 2% a year.
The results of such adjustments and the underlying economic forecasts will be communicated to the two arms of the budgetary authority.
No further technical adjustments will be made in respect of the year concerned, either during the year or as ex-post corrections during subsequent years.

Adjustments connected with implementation

16. When notifying the two arms of the budgetary authority of the technical adjustments to the financial framework, the Commission will present any proposals for adjustments to the total appropriations for payments which it considers necessary, in the light of implementation, to ensure an orderly progression in relation to the appropriations for commitments.

Comments and modifications:
- § 2: updating of the procedure of the technical adjustment in compliance with the new names of agricultural and structural programmes.
- §2: the deflator of 2% is maintained.
- § 3 deleted. The possibility to review the index base is dropped.
### Updating of forecasts for payment appropriations after 2013

17. In 2010, the Commission will update the forecasts for payment appropriations after 2013. This update will take into account the real implementation of budget appropriations for commitments and budget appropriations for payments, as well as the implementation forecasts. It will also consider the rules defined to ensure that payment appropriations develop in an orderly manner compared to commitment appropriations and the growth forecasts of the European Union Gross National Income (GNI).

**Modifications:**
- Point 17 deleted. The related provision is unnecessary if the Financial framework and relevant basic acts are adopted in 2005, as envisaged. A declaration is proposed instead (enclosed at the end of this document).

### Adjustments connected with excessive government deficit

18. In the event that a procedure for excessive government deficit leads to the suspension of budgetary commitments concerning the Cohesion Fund, the Council can decide, at the same time this suspension is lifted, on a transfer of suspended commitments to the following years. Suspended commitments of year n cannot be rebudgeted beyond year n+1. The Council decides on a proposal from the Commission and in compliance with the relevant provisions of the basic regulation.

**New Point 18 linked to the proposal for a new regulation on the Cohesion Fund and to the excessive deficit procedure, notably the sanctions as regards the Cohesion Fund budgetary appropriations for commitments.**

19. The European Parliament and the Council will take decisions on these proposals before 1 May of year n, in accordance with Point 3 of the present Agreement.

### C. Revision of the financial framework

20. In addition to the regular technical adjustments and adjustments in line with the conditions of implementation, the financial framework may be revised in compliance with the own resources ceiling, on a proposal from the Commission, in the event of unforeseen circumstances.

21. As a general rule, any such proposal for revision must be presented and adopted before the start of the budgetary procedure for the year or the first of the years concerned.

### Updating: gross national product (GNP) has been replaced by gross national income (GNI) since the entry into force of the new decision on the system of own resources (OJ L 253/42 of 7.10.2000).
Any revision of the financial framework above 0,03% of the Community GNI within the margin for unforeseen expenditure will be taken jointly by the two arms of the budgetary authority, with the Council acting unanimously.

22. Without prejudice of Point 39, the institutions will examine the scope for reallocating expenditure between the programmes covered by the heading concerned by the revision, with particular reference to any expected under-utilisation of appropriations. The objective should be that a significant amount, in absolute terms and as a percentage of the new expenditure planned, should be within the existing ceiling for the heading.

The institutions will examine the scope for offsetting raising the ceiling for one heading by lowering the ceiling for another.

Any revision of the compulsory expenditure in the financial framework may not lead to a reduction in the amount available for non-compulsory expenditure.

Any revision must maintain an appropriate relationship between commitments and payments.

### D. Consequences of the absence of a joint decision on the adjustment or revision of the financial framework

23. In the absence of a joint decision by the European Parliament and the Council on any adjustment or revision of the financial framework proposed by the Commission, the amounts set previously will, after the annual technical adjustment, continue to apply as the expenditure ceilings for the year in question.

### E. Emergency Aid Reserve

24. The emergency aid reserve is included in Heading 4 'the EU as a global partner' of the financial framework. This reserve is entered in the general budget of the European Communities as a provision. The purpose of the emergency aid reserve is to provide a rapid response to the specific aid requirements of non-member countries following events which could not be foreseen when the budget was established, first and foremost for humanitarian operations, but also for civil crisis management and

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protection where circumstances so require. Its annual amount is fixed at € 221 million for the duration of the financial framework, in constant prices.
When the Commission considers that this reserve needs to be called on, it will present the two arms of the budgetary authority a proposal for a transfer from this reserve to the corresponding budgetary lines.
Any Commission proposal for a transfer to draw on the reserve for emergency aid must be, however, preceded by an examination of the scope for reallocating appropriations. At the same time as it presents its proposal for a transfer, the Commission will initiate a triilogue procedure, if necessary in a simplified form, to secure the agreement of the two arms of the budgetary authority on the need to use the reserve and on the amount required. The transfers are made in accordance with Article 26 of the Financial Regulation.  

F. European Solidarity and Rapid Reaction instrument

25. A European Solidarity and Rapid Reaction instrument, here after referred to as 'the Solidarity Instrument', is included in Heading 3 'Citizenship, Freedom, Security and Justice' and is intended to allow rapid financial assistance in the event of major disasters occurring on the territory of a Member State or of a candidate country, as defined in the relevant basic act. There will be a ceiling on the annual amount available for the Solidarity Instrument of € 1 billion. On 1 October each year, at least one-quarter of the annual amount will remain available in order to cover needs arising until the end of the year.
When the conditions for mobilising the Solidarity Instrument as set out in the relevant basic act are met, the Commission will make a proposal to deploy it. The decision to deploy the Solidarity Instrument will be taken jointly by the two arms of the budgetary authority in accordance with Point 3.

New point:
Point 25 is built upon the current IIA of 7 November 2002 on the European Union Solidarity Fund (EUSF) and incorporates the proposal of the Commission to develop the EUSF into a Solidarity and Rapid Reaction instrument.
At the same time as it presents its proposal for a decision to deploy the Solidarity Instrument, the Commission will initiate a trialogue procedure, if necessary in a simplified form, to secure the agreement of the two arms of the budgetary authority on the need to use the Solidarity Instrument and on the amount required.

### G. Reallocation flexibility

26. The reallocation flexibility with an annual ceiling of € 200 million is intended to allow the financing, for a given financial year and up to the amount indicated, of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more other headings.
It allows for a limited reallocation between headings, in compliance with the overall annual ceilings and without prejudice of the provisions of Point 39.
The Commission will make a proposal for the reallocation flexibility to be used after it has examined all possibilities for re-allocating appropriations under the heading requiring additional expenditure.
The proposal may be presented, for any given financial year, during the budgetary procedure. The Commission proposal will be included in the preliminary draft budget or accompanied, in accordance with the Financial Regulation, by the appropriate budgetary instrument.
The decision to deploy the reallocation flexibility will be taken jointly by the two arms of the budgetary authority in accordance with Point 3. Agreement will be reached by means of the conciliation procedure provided for in Part II, Section A and Annex II to this Agreement.

### Modification:
The new reallocation flexibility replaces the current flexibility instrument, as proposed in the Commission communication of 10.2.2004 *Building our Common Future* [COM(2004) 101 final].
It allows a limited reallocation between headings respecting the overall ceilings. Pre-allocated expenditure is excluded from this instrument.

### H. Growth adjustment Fund

27. Sub-heading 1a *competitiveness for growth and employment* includes appropriations for the *growth adjustment fund* with a maximum annual ceiling of € 1 billion. This amount may be increased, when the situation allows, by committed but

### New Point:
The Growth Adjustment Fund aims at increasing appropriations, when the conditions described in the concerned regulation are met, of existing instruments and actions in Heading 1.
unused appropriations from the two cohesion instruments (European Regional Development Fund and European Social Fund) in application of the ‘N+2’ rule\(^7\), up to a maximum of € 1 billion per year.

The purpose of the growth adjustment fund is to increase the responsiveness of expenditure to changed circumstances in order to optimise delivery of the growth and cohesion objectives, by making the necessary adjustments to cope with unforeseen events that have significant impact on growth and employment. It will also enable the Union to react to crises stemming from international economic and trade developments. Following the annual assessment of progress in the delivery of the roadmap made in the Spring Council, it will be used to address the gaps in the delivery of the roadmap objectives by topping-up, if necessary, expenditure programmes in the competitiveness or cohesion sub-headings, pushing for investment and public support on key projects.

When the conditions exist for mobilising appropriations of the growth adjustment fund, the Commission will make a proposal to deploy it. The decision to deploy the growth adjustment fund will be taken jointly by the two arms of the budgetary authority in accordance with Point 3.

At the same time as it presents its proposal for a transfer or for a decision to deploy the Fund, the Commission will initiate a trialogue procedure, if necessary in a simplified form, to secure the agreement of the two arms of the budgetary authority on the need to use the Fund and on the amount required.

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**I. Adjustment of the financial framework to cater for enlargement**

28. Where the Union is enlarged to include new Member States during the period covered by the financial framework, the European Parliament and the Council, acting on a proposal from the Commission and in accordance with Point 3, will jointly adjust the financial framework to take account of the expenditure requirements resulting from the outcome of the accession negotiations.

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\(^7\) OJ L 161/1 of 26.6.1999, article 31(2).

- It is currently entered under Heading 1a and should be used to top up programmes linked to the Lisbon strategy, whose appropriations are mainly entered under Heading 1a.
<table>
<thead>
<tr>
<th>J. Duration of the financial framework and consequences of the absence of a financial framework</th>
<th>Modification: This provision aims at lifting current ambiguities concerning the coherence between the financial framework and accession treaties, based on the experience of the latest enlargement. In the event that no financial framework is agreed, it should be possible to adjust the extended ceilings for an enlargement.</th>
</tr>
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<tbody>
<tr>
<td>29. Before 1 July 2011, the Commission will present proposals for a new medium-term financial framework. Should the two arms of the budgetary authority fail to agree on a new financial framework, and unless the existing financial framework is expressly terminated by one of the parties to this Agreement, the ceilings for the last year covered by the existing financial framework will be adjusted in accordance with paragraph 15 so that their 2013 ceilings are maintained in constant prices. In the event that an enlargement of the European Union occurs after 2013, and if deemed necessary, the extended framework will be adjusted in order to take into account the results of accession negotiations.</td>
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### PART II – IMPROVEMENT OF INTERINSTITUTIONAL COLLABORATION DURING THE BUDGETARY PROCEDURE

#### A. The interinstitutional collaboration procedure

30. The institutions agree to set up a procedure for interinstitutional collaboration in budgetary matters. The details of this collaboration are set out in Annex II, which forms an integral part of this Agreement.

#### B. Establishment of the budget

31. The Commission will present each year a preliminary draft budget showing the Community's actual financing requirements. It will take into account:

- accurate forecasts in relation to the Structural Funds provided by the Member States,
- the capacity for utilising appropriations, endeavouring to maintain a strict relationship between appropriations for commitments and appropriations for payments,
- the possibilities for starting up new policies through pilot projects and/or new preparatory operations or continuing multiannual operations which are coming to an end, after assessing whether it will be possible to secure a basic act, within the meaning of Article 49 of the Financial Regulation,
- the need to ensure that any change in expenditure in relation to the previous year is in accordance with the constraints of budgetary discipline.

The preliminary draft budget will be accompanied by Activity Statements including such information as required under Articles 27(3) and 33(2)(d) of the Financial Regulation (objectives, indicators and evaluation information).

32. The institutions will, as far as possible, avoid entering items in the budget carrying insignificant amounts of expenditure on operations. The two arms of the budgetary authority also undertake to bear in mind the assessment of the possibilities for implementing the budget made by the Commission in its preliminary drafts and in connection with implementation of the current budget.

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Additions:

- §1: new indent which recalls the importance of having accurate forecasts on the evolution of payment appropriations for structural funds. These forecasts are provided by the Member States.
- New paragraph 2 to take into account the Activity Statements which gather information foreseen in the Financial Regulation.

Additions:

- New § 2 aims at formalising a practice already in use.
- New § 3 is linked to the previous one and underlines the link between sound financial management and ensuring a
Before the Council 2nd reading, the Commission sends a letter to the Chairman of the European Parliament Budgets Committee, with a copy to the other arm of the budgetary authority, containing its comments on the executability of the amendments to the draft budget adopted by the European Parliament in its first reading. The two arms of the budgetary authority will take these comments into account in the context of the conciliation procedure provided for in Annex II. In the interest of sound financial management and due to the effect of major changes in the budget nomenclature in the titles and chapters on the management reporting responsibilities of Commission departments, the two arms of the budgetary authority undertake to discuss any such major changes with the Commission during the conciliation procedure.

C. Classification of expenditure

33. The institutions consider compulsory expenditure to be such expenditure as the budgetary authority is obliged to enter in the budget by virtue of a legal undertaking entered into under the Treaties or acts adopted by virtue of the said Treaties.

34. The preliminary draft budget is to contain a proposal for the classification of each new budget item and each item with an amended legal base. If they do not accept the classification proposed in the preliminary draft budget, the European Parliament and the Council will examine classification of the budget item concerned on the basis of Annex III, which forms an integral part of this Agreement. Agreement will be sought during the conciliation procedure provided for in Annex II.

D. Maximum rate of increase of non-compulsory expenditure in the absence of a financial framework

35. Without prejudice to the first paragraph of point 12, the institutions agree on the following provisions: (a) the European Parliament's autonomous margin for manoeuvre for the purposes of the fourth subparagraph of Article 272(9) of the EC Treaty – which is to be half the maximum rate – applies as from the draft budget established by the Council at first reading, including any letters of amendment. The maximum rate is to be observed in respect of the annual budget, including any supplementary and/or amending budgets. Without prejudice to the setting of a new certain stability in the budget nomenclature.
rate, any portion of the maximum rate which has not been utilised will remain available for use and may be used when draft supplementary and/or amending budgets are considered;

(b) without prejudice to point (a), if it appears in the course of the budgetary procedure that completion of the procedure might require agreement on setting a new rate of increase for non-compulsory expenditure to apply to payment appropriations and/or a new rate to apply to commitment appropriations (the latter rate may be at a different level from the former), the institutions will endeavour to secure an agreement between the two arms of the budgetary authority by the conciliation procedure provided for in Annex II.

E. Incorporation of financial provisions in legislative acts

36. Legislative acts concerning multiannual programmes adopted under the co-decision procedure contain a provision in which the legislative authority lays down the financial envelopes for the programme. That amount will constitute the prime reference for the budgetary authority during the annual budgetary procedure.

The budgetary authority and the Commission, when drawing up its preliminary draft budget, undertake not to depart by more than 5% from this amount unless new, objective, long-term circumstances arise for which explicit and precise reasons are given, with account being taken of the results obtained from implementing the programme, in particular on the basis of assessments.

This point does not apply to appropriations for cohesion adopted under the co-decision procedure and pre-allocated by Member States, which contain a financial envelope for the entire duration of the programme.

37. Legislative instruments concerning multiannual programmes not subject to the co-decision procedure will not contain an ‘amount deemed necessary’.

Should the Council wish to include a financial reference, this will be taken as illustrating the will of the legislative authority and will not affect the powers of the budgetary authority as defined by the Treaty. This provision will be mentioned in all instruments which include such a financial reference.

If the amount concerned has been the subject of an agreement pursuant to the conciliation procedure provided for in the Joint Declaration of the European Parliament,

Addition:
- The addition in § 3 is essential to introduce some flexibility in the annual budget compared to the codecided reference amounts. This flexibility should however be limited to 5% to allow marginal adjustments.
38. The financial statement provided for in Article 28 of the Financial Regulation will reflect in financial terms the objectives of the proposed programme and include a schedule covering the duration of the programme. The appropriations will be revised, where necessary, when the preliminary draft budget is drawn up, taking account of the extent of implementation of the programme.

39. Within the maximum rates of increase for non compulsory expenditure specified in the first subparagraph of point 12, the two arms of the budgetary authority undertake to respect the allocations of commitment appropriations provided for in the relevant regulations for structural operations, rural development and the European Fund for fisheries.

### F. Expenditure relating to fisheries agreements

40. The institutions agree to finance expenditure on fisheries agreements in accordance with the arrangements set out in Annex IV, which forms an integral part of this Agreement.

### G. Financing of the common foreign and security policy (CFSP)

41. For the CFSP expenditure charged to the general budget of the European Communities in accordance with Article 28 of the Treaty on European Union, the institutions will endeavour, in the conciliation procedure provided for in Annex II and on the basis of the preliminary draft budget established by the Commission, to secure each year agreement on the amount of the operating expenditure to be charged to the Community budget and on the distribution of this amount between the articles of the CFSP budget chapter suggested in the fourth subparagraph of this paragraph. In the absence of agreement, it is understood that the European Parliament and the Council will enter in the budget the amount contained in the previous budget or the amount proposed in the preliminary draft budget, whichever is the lower. The total amount of operating CFSP expenditure will be entered entirely in one budget chapter (CFSP) and distributed between the articles of this chapter as suggested in the fourth subparagraph of this paragraph. This amount is to cover the real predictable needs and a reasonable margin for unforeseen actions. No funds will be entered in a
reserve. Each article covers Joint Actions and Council Decisions implementing joint actions already adopted, measures which are foreseen but not yet adopted and all future – i.e. unforeseen – action to be adopted by the Council during the financial year concerned.

Since, under the Financial Regulation, the Commission has the authority, within the framework of a CFSP action, to transfer appropriations autonomously between articles within one budget chapter, i.e. the CFSP allocation, the flexibility deemed necessary for speedy implementation of CFSP actions will accordingly be assured. In the event of the amount of the CFSP budget during the financial year being insufficient to cover the necessary expenses, the European Parliament and the Council will seek a solution as a matter of urgency, on a proposal from the Commission, taking into account Point 24.

Within the CFSP budget chapter, the articles into which the CFSP actions are to be entered could read along the following lines:

– monitoring and verification of conflicts and peace processes,
– non-proliferation and disarmament,
– police missions,
– emergency measures,
– preparatory and follow-up measures,
– European Union Special Representatives,
– conflict resolution and other stabilisation measures.

The European Parliament, the Council and the Commission agree that the amount for actions entered under the article mentioned in the fourth indent may not exceed 20% of the overall amount of the CFSP budget chapter.

42. Once a year, the Council Presidency will consult the European Parliament on a Council document setting out the main aspects and basic choices of the CFSP, including the financial implications for the general budget of the European Communities. Furthermore, according to the agreement reached at the conciliation meeting on 24 November 2003, the Council Presidency and the two incoming Presidencies will keep Parliament informed by holding joint consultation meetings at least five times a year to be agreed at the latest at the conciliation meeting to be held before the Council 2nd reading. The Commission will be associated and participate at these meetings.

Whenever it adopts a decision in the field of CFSP entailing expenditure, the Council
will immediately and in each case send the European Parliament an estimate of the costs envisaged ('financial statement'), in particular those regarding time-frame, staff employed, use of premises and other infrastructure, transport facilities, training requirements and security arrangements. Once a quarter the Commission will inform the budgetary authority about the implementation of CFSP actions and the financial forecasts for the remaining period of the year.
ANNEX I

FINANCIAL FRAMEWORK 2007-2013
<table>
<thead>
<tr>
<th>COMMITMENT APPROPRIATIONS</th>
<th>2006 (a)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sustainable growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1a. Competitiveness for growth and employment</td>
<td>46.621</td>
<td>58.735</td>
<td>61.875</td>
<td>64.895</td>
<td>67.350</td>
<td>69.795</td>
<td>72.865</td>
<td>75.950</td>
</tr>
<tr>
<td>1b. Cohesion for growth an employment</td>
<td>37.830</td>
<td>46.630</td>
<td>47.485</td>
<td>48.215</td>
<td>48.385</td>
<td>48.545</td>
<td>49.325</td>
<td>50.125</td>
</tr>
<tr>
<td>2. Preservation and management of natural resources</td>
<td>56.015</td>
<td>57.180</td>
<td>57.900</td>
<td>58.115</td>
<td>57.980</td>
<td>57.850</td>
<td>57.825</td>
<td>57.805</td>
</tr>
<tr>
<td>of which: Agriculture - Market related expenditure and direct payments</td>
<td>43.735</td>
<td>43.500</td>
<td>43.673</td>
<td>43.354</td>
<td>43.034</td>
<td>42.714</td>
<td>42.506</td>
<td>42.293</td>
</tr>
<tr>
<td>4. The EU as a global partner (c)</td>
<td>11.232</td>
<td>11.280</td>
<td>12.115</td>
<td>12.885</td>
<td>13.720</td>
<td>14.495</td>
<td>15.115</td>
<td>15.740</td>
</tr>
<tr>
<td>Compensations (e)</td>
<td>1.041</td>
<td>120</td>
<td>60</td>
<td>60</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total appropriations for commitments</strong></td>
<td>120.688</td>
<td>133.560</td>
<td>138.700</td>
<td>143.140</td>
<td>146.670</td>
<td>150.200</td>
<td>154.315</td>
<td>158.450</td>
</tr>
</tbody>
</table>

| Total appropriations for payments (b)(c)         | 114.740  | 124.600 | 136.500 | 127.700 | 126.000 | 132.400 | 138.400 | 143.100 |
| Appropriations for payments as a percentage of GNI | 1.09%    | 1.15%   | 1.23%   | 1.12%   | 1.08%   | 1.11%   | 1.14%   | 1.15% |
| Margin available                                 | 0.15%    | 0.09%   | 0.01%   | 0.12%   | 0.16%   | 0.13%   | 0.10%   | 0.09% |
| Own resources ceiling as a percentage of GNI     | 1.24%    | 1.24%   | 1.24%   | 1.24%   | 1.24%   | 1.24%   | 1.24%   | 1.24% |

(a) 2006 expenditure under the current financial perspective has been broken down according to the proposed new nomenclature for reference and to facilitate comparisons. Expenditure in headings 3 and 4 includes amounts corresponding to the Solidarity Instrument (€ 961 at 2004 prices) and EDF (estimated at € 3 billion), respectively.
(b) Includes expenditure for the Solidarity Instrument (€ 1 billion in 2004 at current prices) as from 2006. However, corresponding payments are calculated only as from 2007.
(c) The integration of EDF in the EU budget is assumed to take effect in 2008. Commitments for 2006 and 2007 are included only for comparison purposes. Payments on commitments before 2008 are not taken into account in the payment figures.
(d) Includes administrative expenditure for institutions other than the Commission, pensions and European schools. Commission administrative expenditure is integrated in the first four expenditure headings.
(e) Amounts foreseen in the agreed European Union common position for the Accession Conference with Bulgaria (CONF-BG 27/04)
### ANNEX II

**INTERINSTITUTIONAL COLLABORATION IN THE BUDGETARY SECTOR**

<table>
<thead>
<tr>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modifications and updating:</td>
</tr>
<tr>
<td>- § A: reference is made to the Annual Political Strategy (APS) communication as part of the strategic planning and programming.</td>
</tr>
<tr>
<td>- § A: to render the revision procedure its original role and dedramatise its use, it is proposed to review new budgetary needs which could have a lasting financial impact. This review would take place during a budgetary trialogue and could lead to a proposal for revision of the financial framework.</td>
</tr>
<tr>
<td>- § B: reordering of points.</td>
</tr>
<tr>
<td>- § B.5: in light of the experience, the trialogue held before the EP's first reading is sometimes unnecessary.</td>
</tr>
<tr>
<td>- § D (new) replaces points 37 and 38 of the Interinstitutional Agreement. New figures for pilot schemes and preparatory actions have been calculated on the basis of current IIA figures, which have been adjusted to 2004 prices and to a 10 % increase to cater for the effect of enlargement. The figure for the total of preparatory actions has been calculated on the basis of 2.5 times the figure for new preparatory actions</td>
</tr>
</tbody>
</table>

| A. | After the technical adjustment of the financial framework for the forthcoming financial year, taking into account the Annual Policy Strategy presented by the Commission and prior to its decision on the preliminary draft budget, a meeting of the trialogue will be convened to discuss the possible priorities for the budget of that year. Due account will be taken of the institutions' powers as well as the foreseeable development of the needs for the financial year to come and for the following years covered by the financial framework. Account will also be taken of the new elements since the establishment of the initial financial framework and likely to have a significant and lasting financial impact on the budget of the European Union. If the institutions conclude by mutual agreement that a revision of the financial perspective is needed, the Commission may submit a proposal to that end. |
| B. | As regards compulsory expenditure, the Commission, in presenting its preliminary draft budget, will identify: |
| (a) | appropriations connected with new or planned legislation; |
| (b) | appropriations arising from the application of legislation existing when the previous budget was adopted. |
| The Commission will make a careful estimate of the financial implications of the Community's obligations based on the rules. If necessary it will update its estimates in the course of the budgetary procedure. It will supply the budgetary authority with all the duly justified reasons it may require. |
| If it considers it necessary, 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 and/or 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. This letter of amendment must be sent to the budgetary authority before the end of October. |
If it is presented to the Council less than a month before the European Parliament's first reading, the Council will, as a rule, consider the ad hoc letter of amendment when giving the draft budget its second reading. As a consequence, before the Council's second reading of the budget, the two arms of the budgetary authority will try to meet the conditions necessary for the letter of amendment to be adopted on a single reading by each of the institutions concerned.

C. 1. A conciliation procedure is set up for all expenditure.

2. The purpose of the conciliation procedure is to:

(a) continue discussions on the general trend of expenditure and, in this framework, on the broad lines of the budget for the coming year in the light of the Commission's preliminary draft budget;

(b) secure agreement between the two arms of the budgetary authority on:

– the appropriations referred to in point 2(a) and (b), including those proposed in the ad hoc letter of amendment referred to at point 2,

– the amounts to be entered in the budget for non-compulsory expenditure, in accordance with point 39 of this Agreement,

– and, particularly, matters for which reference to this procedure is made in this Agreement.

4. The procedure will begin with a trialogue meeting convened in time to allow the institutions to seek an agreement by no later than the date set by the Council for establishing its draft budget. There will be conciliation on the results of this trialogue between the Council and a European Parliament delegation, with the Commission also taking part. Unless decided otherwise during the trialogue, the conciliation meeting will be held at the traditional meeting between the same participants on the date set by the Council for establishing the draft budget.

5. If necessary, a new trialogue meeting could be held before the European Parliament's first reading on written proposal by the Commission or written request by either the chairman of the European Parliament's Budgets Committee or the President of the Council (Budgets). The decision whether to hold this trialogue will be agreed between the institutions after the adoption of the Council draft budget and prior to the vote of the amendments on the first reading by the European Parliament Budgets Committee.

6. The institutions will continue the conciliation after the first
reading of the budget by each of the two arms of the budgetary authority in order to secure agreement on compulsory and noncompulsory expenditure and, in particular, to discuss the ad hoc letter of amendment referred to in point 2.

A trialogue meeting will be held for this purpose after the European Parliament's first reading. The results of the trialogue will be discussed at a second conciliation meeting to be held the day the Council's second reading.

If necessary, the institutions will continue their discussions on non-compulsory expenditure after the Council's second reading.

7. At these trialogue meetings, the institutions' delegations will be led by the President of the Council (Budgets), the Chairman of the European Parliament's Committee on Budgets and the Member of the Commission with responsibility for the budget.

8. Each arm of the budgetary authority will take whatever steps are required to ensure that the results which may be secured in the conciliation process are respected throughout the current budgetary procedure.

D. In order for the Commission to be able to assess in due time the implementability of the amendments envisaged by the budgetary authority, creating new Preparatory Actions/Pilot Projects or prolonging existing ones, both arms of the budgetary authority inform the Commission by mid June of their intentions in this field, so that a first discussion may already take place at the conciliation meeting of the Council's first reading. The next steps of the conciliation procedure foreseen in this annex will also apply, as well as the provisions on the implementability mentioned in point 35 of this agreement.

Furthermore, the three institutions agree to limit the total amount of appropriations for pilot schemes to € 38 million in any budget year. They also agree to limit to € 36 million the total amount of appropriations for new preparatory actions in any budget year, and to € 90 million the total amount of appropriations actually committed for preparatory actions.
### CLASSIFICATION OF EXPENDITURE

<table>
<thead>
<tr>
<th>HEADING 1*</th>
<th>Sustainable growth</th>
<th>Non-compulsory expenditure (NCE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A</td>
<td>Competitiveness for growth and employment</td>
<td>NCE</td>
</tr>
<tr>
<td>1B</td>
<td>Cohesion for growth and employment</td>
<td>NCE</td>
</tr>
<tr>
<td>HEADING 2*</td>
<td>Preservation and management of natural resources</td>
<td>Compulsory expenditure (CE)</td>
</tr>
<tr>
<td>Except:</td>
<td>Expenditure of the common agricultural policy concerning market measures and direct aids, including market measures for fisheries and fisheries agreements</td>
<td>NCE</td>
</tr>
<tr>
<td>HEADING 3*</td>
<td>Citizenship, freedom, security and justice</td>
<td>NCE</td>
</tr>
<tr>
<td>HEADING 4*</td>
<td>The EU as a global partner</td>
<td>NCE</td>
</tr>
<tr>
<td>Except:</td>
<td>Expenditure resulting from international agreements which the European Union concluded with third parties</td>
<td>CE</td>
</tr>
<tr>
<td></td>
<td>Contributions to international organisations or institutions</td>
<td>CE</td>
</tr>
<tr>
<td></td>
<td>Contributions provisioning the loan guarantee fund</td>
<td>CE</td>
</tr>
<tr>
<td>HEADING 5</td>
<td>Administration</td>
<td>NCE</td>
</tr>
<tr>
<td>Except pensions and severance grants</td>
<td>CE</td>
<td></td>
</tr>
</tbody>
</table>

* The following Commission administrative expenditure is compulsory:
  - legal expenses,
  - damages,
  - allowances and miscellaneous contributions on termination of service.
A. Expenditure relating to fisheries agreements is financed by two items belonging to the ‘fisheries’ policy area (by reference to the activity based budget nomenclature):

(a) international fisheries agreements (11 03 01);
(b) contributions to international organisations (11 03 02).

All the amounts relating to agreements and protocols which will be in force on 1 January of the year in question will be entered under heading 11 03 01. Amounts relating to all new or renewable agreements which will come into force after 1 January of the year in question will be assigned to heading 31 02 04 02 – Reserves/Differennciated appropriations (compulsory expenditure).

B. In the conciliation procedure provided for in Annex III, the European Parliament and the Council will seek to agree on the amount to be entered in the budget headings and in the reserve on the basis of the proposal made by the Commission.

C. The Commission undertakes to keep the European Parliament regularly informed about the preparation and conduct of the negotiations, including the budgetary implications.

In the course of the legislative process relating to fisheries agreements, the institutions undertake to make every effort to ensure that all procedures are carried out as quickly as possible.

If appropriations relating to fisheries agreements (including the reserve) prove insufficient, the Commission will provide the budgetary authority with the necessary information for an exchange of views in the form of a trialogue, possibly simplified, on the causes of the situation, and on the measures which might be adopted under established procedures. Where necessary, the Commission will propose appropriate measures.

Each quarter the Commission will present to the budgetary authority detailed information about the implementation of agreements in force and financial forecasts for the remainder of the year.
DECLARATIONS

Declaration on the adjustment of Structural Funds, Rural Development and the European Fund for Fisheries in the light of the circumstances of their implementation

The institutions may decide, on a proposal of the Commission; that in the event of the adoption of the new rules governing the Structural Funds, Rural Development and the European Fund for Fisheries after 1 January 2007, appropriations not used in the first year of the financial framework could be transferred to the following years.