

Revised proposal for the renewal of the Interinstitutional Agreement (1 February 2006)

Caption: On 1 February 2006, the Commission submits a revised proposal for the renewal of the Interinstitutional Agreement on budgetary discipline and the improvement of the budgetary procedure for the period 2007–2013.

Source: Commission of the European Communities. Commission working document, Revised proposal for renewal of the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure COM(2006) 36 final. Brussels: 01.02.2006. 32 p.

Copyright: (c) European Union, 1995-2012

URL:

http://www.cvce.eu/obj/revised_proposal_for_the_renewal_of_the_interinstitutional_agreement_1_february_2006-en-3cac75f8-8dbc-4d31-b971-a3b71cd07ae4.html

Publication date: 20/10/2012

Commission working document — Revised proposal for the renewal of the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure

Explanatory memorandum

On 14 July 2004 the Commission presented a proposal⁽¹⁾ for the renewal of the Interinstitutional Agreement (IIA) on budgetary discipline and improvement of the budgetary procedure for the period 2007-2013.

On 8 June 2005 the European Parliament adopted a resolution on Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013⁽²⁾, followed by a resolution on the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure⁽³⁾ adopted on 1 December 2005.

On 15-16 December 2005, the European Council reached a political agreement on the Financial Perspective 2007-2013⁽⁴⁾.

On 18 January 2006 the European parliament adopted a resolution on the European Council's position on the Financial Perspective and the renewal of the Interinstitutional agreement 2007-2013⁽⁵⁾;

The enclosed draft Interinstitutional Agreement is intended as a working paper for the last phase of the negotiations between the European Parliament, the Council and the Commission taking into account in particular the conclusions of the European Council of 15-16 December 2005.

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

1. Guidelines for a new agreement on budgetary discipline

1.1. 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 the financial framework 2000-2006 to cater for the enlargement of the European Union to ten new member States.

a) 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 in terms of appropriations for commitments and for each heading; expenditure levels are based on the assumption that Bulgaria and Romania join the EU on 1 January 2007; in case of their accession at a later date, the expenditure ceilings may have to be revised accordingly;
- 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).

b) 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'.

c) It proposes to insert a new provision whereby in 2008/2009 the Commission will present to the European Parliament and Council a wide-ranging review covering all aspects of EU spending and resources.

1.2. 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. It also proposes the simplification of the framework wherever justified and possible.

a) 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 as a separate supplementary interinstitutional agreement. It is proposed that the EUSF maintains the current rules for its mobilisation whereby, when the Fund is mobilised, corresponding expenditure be 'entered in the budget over and above the relevant headings' in the financial framework.

b) Simplification of the method for the technical adjustment, by extending the pre-determined 2% annual inflation rate used for structural funds and agriculture, to the rest of expenditure.

c) The provisioning of the guarantee fund for loans to third countries is rationalised so that there is no longer any need for a 'reserve' to this end. The related (reduced) expenditure to be budgeted becomes part of the instruments available for the Union's external policy.

1.3. Flexibility: 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. For instance, 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.

On 15-16 December 2005, the European Council reached a political agreement which entails expenditure ceilings significantly lower than those proposed by the Commission. Tighter expenditure ceilings entail more rigidity in the financial framework and risks undermining the Union's ability to address future challenges and hinder rather than encouraging effective resource allocation. That is why the Commission proposes the following measures to address future challenges and find the proper balance between budgetary discipline and efficient resources allocation.

- 1) The revision of the multiannual financial framework remains the main instrument to respond to significant changes of permanent character in the EU policies in a fast developing context.
- 2) Some flexibility instruments to be mobilised within the limits of the agreed financial framework, in view of facilitating the deployment or redeployment of financial resources within the expenditure ceilings. These include the following:
 - a) The Emergency Aid reserve within Heading 4 to respond to emergency situations in third countries. Its amount and mobilisation procedure remain unchanged.
 - b) A new European Globalisation Adjustment Fund intended to provide additional support for workers who suffer the consequences of major structural changes in world trade patterns, to assist them with their reintegration into the labour market.
 - c) Finally, the possibility for the budgetary authority based on a Commission proposal, in the framework of the annual budgetary procedure, to depart by up to 10% from the so-called 'reference amounts' concerning multiannual programmes adopted under the co-decision procedure (except for cohesion programmes).
- 3) Some other instruments to be mobilised above the agreed expenditure ceilings within certain limits. These instruments, to be used in the framework of the annual budget procedure according to the relevant provisions defined in the enclosed draft IIA, include:
 - a) the European Union Solidarity Fund, with unchanged amount and mobilisation procedure;
 - b) the Flexibility Instrument, whose maximum annual amount is increased to € 700 million, with the possibility to cover requirements of multiannual nature. The mobilisation procedure remains unchanged.

2. 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 (EC) 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 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 Commission has proposed a new mechanism for the provisioning of the fund to guarantee loans to non-Member countries. The provisions concerning the Emergency Aid reserve are set up in the draft IIA enclosed.

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

3. 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⁽⁶⁾. The annexes I to IV form an integral part of the present proposed

agreement.

3.1. 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.

3.2. 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. As mentioned above, the Commission proposes that the budgetary authority and the Commission, in the course of the annual budgetary procedure, can depart from these amounts by a limited margin (10%).

4. 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 should aim at finding the proper balance between budgetary discipline and efficient resources allocation.

Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure

[Table of contents]

Draft

**European parliament
Council
Commission
Interinstitutional Agreement**

of [...]

between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure

NB: The definition 'multiannual financial framework' replaces 'financial perspective' in the following draft.

Comments are referred to changes vis-à-vis the previous Commission proposal or the text of the Interinstitutional Agreement of 6 May 1999. Unless specified otherwise, the mentioning of the European Council's position in the comments refers to the final conclusions of the European Council of 15-16 December 2005. Likewise, the European Parliament's position refers to the EP Resolution of 8 June 2005 on 'Policy challenges and budgetary means of the enlarged Union 2007-2013', the EP Resolution of 1 December 2005 on 'The Inter-institutional Agreement on budgetary discipline and improvement of the budgetary procedure and the EP Resolution of 18 January 2006 on 'the European Council's position on the Financial Perspective and the renewal of the Interinstitutional Agreement 2007-2013'.

Text of the IIA

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.
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.
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 (here after referred to as the 'EC Treaty').
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.
5. This Agreement is in two parts:
 - Part I contains a definition and implementing provisions for the multiannual financial framework⁽⁷⁾ 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 point 31, 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⁽⁸⁾,
 - 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⁽⁹⁾.

Comments

Modifications:

Updating and simplification. Already proposed by the Commission in COM(2004) 498, the regrouping of 'various existing agreements and joint declarations concerning budgetary matters' is also a guideline of the European Council conclusions (§ 6 of conclusions).

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.
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⁽¹⁰⁾, here after referred to as the 'Financial Regulation'.

Information relating to operations not included in the general budget of the European Communities and the foreseeable development of the various categories of Community own resources are set out, by way of indication, in separate tables. This information is updated annually when the technical adjustment is made to the financial framework.

Comments

Modifications:

- General updating
- § 4 of the current IIA deleted (void): no specific heading for pre-accession expenditure is proposed.
- §3 (§5 in the current IIA): This paragraph concerns the European Development Fund, which remains outside the financial framework.
- §6 of the current IIA: 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.

Comments

§2 of the current IIA 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.

Except in sub-heading 1B 'Cohesion for growth and employment' of 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.

Comments

Modifications:

- Point 12 § 2: the specific nature of sub-heading 1B (Heading 2 in Agenda 2000), which only covers pre-allocated expenditure, is preserved for the period 2007-2013.
- Point 12 § 3 of the current IIA deleted: the corresponding provision has been inserted in Part II, Article 41.

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 point 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.

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:

- 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 a fixed 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.

16. In its technical adjustment for the year 2011, if it is established that any Member State's cumulated GDP for the years 2007-2009 has diverged by more than $\pm 5\%$ from the cumulated GDP estimated when drawing up the present agreement, the Commission will adjust the amounts allocated from funds supporting cohesion to this Member State for that period. The total net effect, whether positive or negative, of these adjustments may not exceed € 3 billion. If the net effect is positive, total additional resources shall be limited to the level of under-spending against the ceilings for sub-heading 1B for the years 2007-2010. The required adjustments will be spread in equal proportions over the years 2011-2013 and the corresponding ceilings will be modified accordingly.

Comments

Modifications:

- § 2: updating of the procedure of the technical adjustment in compliance with the new names of agricultural and structural programmes.
- § 2: the application of the fixed deflator of 2% is extended to all expenditure headings. The 2% deflator is already used for almost 80% of expenditure (agriculture, cohesion and the future European Fishery Fund) in the budget. Moreover, in the course of the negotiations on the 2007-2013 financial framework, a simplified 2% annual deflator was used systematically by the Commission to transform in 2004 prices all financial envelopes of new legal bases established in current prices. The application of a single 2% deflator will simplify the annual technical adjustment and increase predictability of expenditure ceilings in current prices.
- § 2. The possibility to review the index base is dropped.
- New point 16: integrates possible impact of the specific provision agreed in the European Council conclusions (§ 42).

Adjustments connected with implementation

17. 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

Modifications:

- Point 17 of the current IIA deleted. A declaration is proposed instead (enclosed at the end of this document).

Updating of forecasts for payment appropriations after 2013

18. 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).

Adjustments connected with excessive government deficit

19. 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.

Comments

New Point 19 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.

20. 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. Review of the financial framework

21. In 2008/2009, the Commission will present to the European Parliament and Council a wide-ranging review, in the form of a White Paper, covering all aspects of EU spending and resources, with a view to ensuring that the budget is equipped to respond to the challenges of the future.

Comments

New provision:

A general review of EU expenditure and revenue is foreseen in 2008/9, as agreed in the European Council conclusions (§ 80).

D. Revision of the financial framework

22. 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.

23. 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.

Any decision to revise the financial framework by up to 0,03% of the Community GNI within the margin for unforeseen expenditure will be taken jointly by the two arms of the budgetary authority acting in accordance with Point 3.

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.

Comments

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, 7.10.2000, p. 42).

24. Without prejudice of Point 41, 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.

Comments

Updating:

§ 3 of the current IIA deleted (void): no separate heading for pre-accession expenditure is proposed for the financial framework 2007-2013.

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

25. 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.

F. Emergency Aid Reserve

26. 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 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 dialogue 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⁽¹¹⁾.

Comments

Modifications and simplification:

- § 1(a) of the current IIA: void. The monetary reserve was foreseen only until 2002.
- § 1(b) of the current IIA: deletion of the reference to the reserve for guaranteeing loans to non-member countries. The Commission will propose a new arrangement whereby the appropriations necessary to properly provisioning the guarantee fund will be entered in the budget, with no ad-hoc provision for the related call of resources.
- § 1: the emergency aid reserve remains the only reserve referred to and is entered under Heading 4. Its scope is enlarged to the management of civil crisis and its amount is adjusted in 2004 prices (all figures of the proposed financial framework are expressed in constant prices (2004 prices)).
- § 2-5 of the current IIA: the procedure for the mobilisation of the reserve is updated to take into account the new Financial Regulation.

If necessary, supplementary needs for this reserve could be covered either by transfers from other operational budgetary lines, or by an amending budget to use the available margin.

G. European Union Solidarity Fund

27. The European Union Solidarity Fund 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 Fund 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. The portion of the annual amount not entered in the budget may not be rolled over in the following years.

In exceptional cases and if the remaining financial resources available in the Fund in the year of occurrence of the disaster, as defined in the relevant basic act, are not sufficient to cover the amount of assistance deemed necessary by the budgetary authority, the Commission may propose that the difference be financed through the following year's Fund. The annual amount of the Fund to be budgeted in each year may not exceed € 1 billion under any circumstance.

When the conditions for mobilising the Solidarity Fund as set out in the relevant basic act are met, the Commission will make a proposal to deploy it. Where there is scope for reallocating appropriations under the heading requiring additional expenditure, the Commission shall take this into account when making the necessary proposal, in accordance with the Financial Regulation in force, by the appropriate budgetary instrument. The decision to deploy the Solidarity Instrument will be taken jointly by the two arms of the budgetary authority in accordance with Point 3.

The corresponding commitment appropriations shall be entered in the budget over and above the relevant headings in the financial framework as laid down in Annex I.

At the same time as it presents its proposal for a decision to deploy the Solidarity Fund, the Commission will initiate a dialogue 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 Fund and on the amount required.

Comments

New point:

Point 27 incorporates the current IIA of 7 November 2002 on the European Union Solidarity Fund (EUSF). The EUSF remains outside the financial framework and keeps the same features in terms of maximum annual amount (€1 billion), trialogue procedure, joint adoption by the budgetary authority on a proposal from the Commission, no carry-overs possible for non-budgetised portions of the Fund.

H. Instrument of Flexibility

28. The Instrument of Flexibility with an annual ceiling of € 700 million is intended to allow the financing, for a given financial year and up to the amount indicated, of clearly identified expenditure of one-off and/or multiannual character, which could not be financed within the limits of the ceilings available for one or more other headings.

The Commission will make a proposal for the flexibility instrument 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 instrument of 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

Comments

Modification and simplification:

The existing flexibility instrument is reinstated and the reallocation flexibility removed.

The annual amount of the flexibility instrument is increased to € 700 million per year and its scope broadened to cover also the possibility to cater for justified needs extending beyond one year. These changes would ensure sufficient flexibility within lower ceilings for commitments than in the original Commission proposal while simplifying its use.

I. European Globalisation Adjustment Fund

29. The European Globalisation Adjustment Fund is intended to provide additional support for workers who suffer from the consequences of major structural changes in world trade patterns, to assist them with their reintegration into the labour market.

The Fund may not exceed a maximum annual amount of € 500 million which can be drawn from any margin existing under the global expenditure ceiling of the previous year, and/or from commitment appropriations de-committed during the previous two years.

When the conditions exist for mobilising the European Globalisation Adjustment Fund, as set out in the relevant basic act, the Commission will make a proposal to deploy it. The decision to deploy the European Globalisation 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.

The corresponding commitment appropriations shall be entered in the budget under the relevant heading, if necessary over and above the relevant amount as laid down in Annex I.

Comments

New provision.

J. Adjustment of the financial framework to cater for enlargement

30. Where the Union is enlarged to include new Member States during the period covered by this 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.

Comments

§ 2 of the current IIA deleted (void): no specific table including supplementary financial requirements for an enlargement during the 2007-2013 financial framework is foreseen.

K. Duration of the financial framework and consequences of the absence of a financial framework

31. Before 1 July 2011, the Commission will present proposals for a new medium-term financial framework, taking into account the review mentioned in Point 21.

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 point 15 so that the 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.

Comments

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.

Part II – Improvement of interinstitutional collaboration during the budgetary procedure

A. The interinstitutional collaboration procedure

32. 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

33. 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 (definition of a basic act, necessity of a basic act for implementation and exceptions),

– 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).

Comments

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 § 2 to take into account the Activity Statements which gather information foreseen in the Financial Regulation.

34. 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.

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.

Comments

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 certain stability in the budget nomenclature.

C. Classification of expenditure

35. 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.

36. 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

37. 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 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 paragraph (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

38. 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 10% 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.

Comments

Addition:

- The addition in § 3 is essential to introduce some flexibility in the annual budget compared to the codedecided reference amounts. This flexibility is set at 10% to allow sufficient adjustments, as proposed by the European Parliament.

39. 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, Council and the Commission of 4 March 1975⁽¹²⁾, it will be considered a reference amount within the meaning of point 38 of this Agreement.

40. 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.

41. 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.

Comments

Modification:

Transferred from Point 12 of the current IIA.

F. Expenditure relating to fisheries agreements

42. 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)

43. 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 point. 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 point. 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 26. 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.

Comments

Updating.

44. 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.

Comments

The modification in § 1 is in line with the agreement reached at the conciliation meeting on 24 November 2003.

Annex I

Financial framework 2007-2013

Annex II

Interinstitutional collaboration in the budgetary sector

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 triologue 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.

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 41 of this Agreement,

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

3. 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.

4. 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.

5. 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.

6. 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.

7. 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 37 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.

Comments

Modifications and updating:

- § A: reference is made to the Annual Political Strategy (APS) communication as part of the strategic planning and programming.
- § B: reordering of points.
- § C.4 (B.5 of the current IIA): modification. In light of the experience, the trialogue held before the EP's first reading is sometimes unnecessary.
- § D (new) replaces points 37 and 38 of the current 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

Annex III

Classification of expenditure

[Classification of expenditure](#)

Annex IV

Financing of expenditure deriving from fisheries agreements

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 41 02 – Reserves/Differentiated appropriations (compulsory expenditure).

Comments

Updating

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 dialogue, 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 after 1 January 2007 of the new rules and programmes governing the Structural Funds, Rural Development and the European Fund for Fisheries, appropriations not used in the first year of the financial framework could be transferred to the following years.

⁽¹⁾ COM(2004) 498.

⁽²⁾ P6_TA(2005)0224.

⁽³⁾ P6_TA PROV(2005)0453

⁽⁴⁾ Document 15915/05 CADREFIN 268 of 19/12/2005.

⁽⁵⁾ PE 368.274, B6-0049/2006.

⁽⁶⁾ OJ L 248, 16.9.2002, p. 1.

⁽⁷⁾ The multiannual financial framework is also referred to as 'the financial framework' in the present agreement.

⁽⁸⁾ OJ C 172, 18.6.1999, p. 1. This Interinstitutional Agreement already replaced and declared obsolete the following instruments:

- the Joint Declaration by the European Parliament, the Council and the Commission of 30 June 1982 on various measures to improve the budgetary procedure (OJ C 194, 28.7.1982, p. 1);
- the Interinstitutional Agreement of 29 October 1993 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure (OJ C 331, 7.12.1993, p. 1);
- the Declaration by the European Parliament, the Council and the Commission of 6 March 1995 on the incorporation of financial provisions into legislative acts (OJ C 102, 4.4.1996, p. 4);
- the Joint Declaration of 12 December 1996 concerning the improvement of information to the budgetary authority on fisheries agreements (OJ C 20, 20.1.1997, p. 109);
- the Interinstitutional Agreement between the European Parliament, the Council and the European Commission of 16 July 1997 on provisions regarding financing of the common foreign and security policy (OJ C 286, 22.9.1997, p. 80);
- the Interinstitutional Agreement of 13 October 1998 between the European Parliament, the Council and the Commission on legal bases and implementation of the budget (OJ C 344, 12.11.1998, p. 1).

⁽⁹⁾ OJ C 283, 20.11.2002, p. 1.

⁽¹⁰⁾ OJ L 248, 16.9.2002, p. 1.

⁽¹¹⁾ OJ L 248, 16.9.2002, p. 1.

⁽¹²⁾ 12 OJ C 89, 22.4.1975.