COUNCIL OF
THE EUROPEAN UNION

Brussels, 11 April 2006

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CADREFIN 91

NOTE

from :	Presidency
to :	Coreper
Subject :	*Financial Perspective – Inter-Institutional Agreement*

1. The Presidency submits to delegations for their approval the attached texts of the draft 2007-2013 Interinstitutional Agreement and a number of accompanying statements, representing the outcome of the fourth political Trialogue held on 4 April 2006.

2. After approval by Coreper the Presidency proposes that the texts in question should be adopted formally by the Council in due course after legal and linguistic finalisation in accordance with the usual procedure.

3. According to information received, the European Parliament envisages adopting these texts at its plenary session on 15-18 May 2006.

Draft

EUROPEAN PARLIAMENT
COUNCIL
COMMISSION

INTERINSTITUTIONAL AGREEMENT
of […]
between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management

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, as well as to ensure sound financial management.

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. Should a Treaty revision with budgetary implications occur during the current multiannual financial framework, the necessary adjustments will be made accordingly.

5. 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.

6. This Agreement is in three parts:

- Part I contains a definition and implementing provisions for the multiannual financial framework[1] 2007 to 2013 and applies for the duration of that financial framework;

- Part II relates to improvement of interinstitutional collaboration during the budgetary procedure;

- Part III contains provisions related to sound financial management of EU funds.

7. Whenever it considers it necessary, and in any event at the same time as any proposal for a new financial framework presented pursuant to point 30, the Commission will present a report on the application of this Agreement, accompanied where necessary by proposed amendments.

8. 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[2];

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[1] The multiannual financial framework is also referred to as "the financial framework" in the present agreement.

[2] OJ C 172, 18.6.1999, p. 1, with Corrigendum in OJ C 303, 20.10.1999, p. 6.

– 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[1].

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

A. Contents and scope of the financial framework

9. 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.

10. 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.

11. The 2007 to 2013 financial framework establishes, for each of the years and for each heading or sub-heading, 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[2], here after referred to as the "Financial Regulation".

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[1] OJ C 283, 20.11.2002, p. 1.
[2] OJ L 248, 16.9.2002, p. 1, with Corrigendum in OJ L 25, 30.1.2003, p. 43.

Information relating to operations not included in the general budget of the European Union 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.

12. 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 Union. 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.

13. By agreeing to the present Agreement, the two arms of the budgetary authority agree to accept the rates of increase for non-compulsory expenditure deriving from the budgets established within the ceilings set by the financial framework in Annex I for its entire duration.

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.

14. 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 12 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.

15. 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

16. 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.

17. 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 +/- 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 EUR 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 "Cohesion for growth and employment" 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.

Adjustments connected with implementation

18. 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. 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.

Updating of forecasts for payment appropriations after 2013

19. 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

20. In the case of the lifting of a suspension of budgetary commitments concerning the Cohesion Fund in the context of an excessive government deficit procedure, the Council, on a proposal from the Commission and in compliance with the relevant provisions of the basic regulation, will decide on a transfer of suspended commitments to the following years. Suspended commitments of year *n* cannot be re-budgeted beyond year *n*+2.

C. Revision of the financial framework

21. 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.

22. 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.

23. Without prejudice to Point 40, 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

24. 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

25. 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.

This reserve is entered in the general budget of the European Union as a provision. The corresponding commitment appropriations shall be entered in the budget, over and above the ceilings agreed in the financial framework as laid down in Annex I.

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 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 reserve and on the amount required. The transfers are made in accordance with Article 26 of the Financial Regulation.

F. European Union Solidarity Fund

26. 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 (current prices). 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 Fund 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, if necessary, over and above the ceilings of 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 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 Fund and on the amount required.

G. Flexibility Instrument

27. The Flexibility Instrument with an annual ceiling of EUR 200 million (in current prices) 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.

The portion of the annual amount which is not used may be carried over up to a year n+2. If the instrument is mobilised, any carryovers will be drawn on first, in order of age. The portion of the annual amount from year n which is not used in year n+2 will lapse.

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 will concern the principle of making use of the Instrument and will identify the needs to be covered and the amount. It 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 Flexibility Instrument 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.

H. European Globalisation Adjustment Fund

28. 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 (current prices) which can be drawn from any margin existing under the global expenditure ceiling of the previous year, and/or from cancelled commitment appropriations from the previous two years, excluding those related to heading 1B.

The appropriations are entered in the general budget of the European Union as a provision through the normal budgetary procedure as soon as the Commission has identified the sufficient margins and/or cancelled commitments, as defined above.

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 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, and will present the two arms of the budgetary authority a proposal for a transfer to the relevant budgetary lines.

The transfers related to the European Globalisation Adjustment Fund are made in accordance with Article 24(4) of the Financial Regulation.

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

I. Adjustment of the financial framework to cater for enlargement

29. 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.

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

30. 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 Point 16 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.

PART II – IMPROVEMENT OF INTERINSTITUTIONAL COLLABORATION DURING THE BUDGETARY PROCEDURE

A. The interinstitutional collaboration procedure

31. 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

32. The Commission will present each year a preliminary draft budget showing the Community's actual financing requirements.

It will take into account:

– 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 actions or continuing multiannual actions 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).

33. 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's second reading, the Commission sends a letter to the Chairman of the European Parliament's Committee on Budgets, 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

34. 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.

35. 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 the 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

36. Without prejudice to the first paragraph of Point 13, 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 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 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

37. 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 that amount for the entire duration of the programme concerned, 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. Any increase resulting from such variation must remain within the existing ceiling for the heading concerned, without prejudice to the use of the instruments foreseen in this Agreement.

    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.

38. 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, the Council and the Commission of 4 March 1975[1], it will be considered a reference amount within the meaning of Point 37 of this Agreement.

39. 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. It will be revised, where necessary, when the preliminary draft budget is drawn up, taking account of the extent of implementation of the programme. The revised statement will be forwarded to the budgetary authority when the preliminary draft budget is presented and after the budget is adopted.

40. Within the maximum rates of increase for non compulsory expenditure specified in the first subparagraph of Point 13, 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

41. 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.

[1] OJ C 89, 22.4.1975.

G. Financing of the Common Foreign and Security Policy (CFSP)

42. For the CFSP expenditure charged to the general budget of the European Union 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 Union 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, assessed, in the framework of the establishment of the preliminary draft budget by the Commission, on the basis of forecasts drawn up annually by the Council, and a reasonable margin for unforeseen actions. No funds will be entered in a reserve. Each article covers instruments already adopted, measures which are foreseen but not yet adopted and all future – i.e. unforeseen – instruments 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 25.

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

– crisis management operations, conflict prevention, resolution and stabilisation, monitoring and implementation of peace and security processes;

– non-proliferation and disarmament;

– emergency measures;

– preparatory and follow-up measures;

– European Union Special Representatives.

The European Parliament, the Council and the Commission agree that at least € 1,740 million will be available for the CFSP over the period 2007-2013 and that the amount for actions entered under the article mentioned in the third indent may not exceed 20% of the overall amount of the CFSP budget chapter.

43. Each year, the Council Presidency will consult the European Parliament on a forward-looking Council document which will be transmitted before 15 June for the year in question, setting out the main aspects and basic choices of the CFSP, including the financial implications for the general budget of the European Union and an evaluation of the measures launched in the year *n*-1. Furthermore, the Council Presidency will keep Parliament informed by holding joint consultation meetings at least five times a year, in the framework of the regular political dialogue on CFSP, to be agreed at the latest at the conciliation meeting to be held before the Council second reading. The participation in these meetings shall be defined as follows:

– European Parliament: the bureaus of the two Committees concerned;
– Council: Ambassador (Chairman of the Political and Security Committee).

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 no later than five working days following the final decision 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.

PART III – SOUND FINANCIAL MANAGEMENT OF EU FUNDS

A. Ensuring effective and integrated internal control of Community funds

44. The European Parliament, the Council and the Commission agree on the importance of strengthening internal control without adding to the administrative burden for which the simplification of the underlying legislation is a prerequisite. In this context, priority will be given to sound financial management aiming at a positive Statement of Assurance (DAS), for funds under shared management. Provisions to this end could be laid down, as appropriate, in the basic legislative acts concerned. As part of their enhanced responsibilities for structural funds and in accordance with national constitutional requirements, the relevant audit authorities in Member States will produce an assessment concerning the compliance of management and control systems with the regulations of the Community.

Member States therefore undertake to produce an annual summary at the appropriate national level of the available audits and declarations.

B. Financial Regulation

45. The European Parliament, the Council and the Commission agree that the IIA and the budget will be implemented in a context of sound financial management based on the principles of economy, efficiency, effectiveness, proportionality of administrative costs, protection of financial interests and user friendly procedures. The Institutions will take appropriate measures, in particular in the Financial Regulation that should be adopted following the conciliation procedure in the spirit which enabled agreement in 2002.

C. Financial Programming

46. The Commission submits twice a year, the first time in May/June (together with the documents accompanying the preliminary draft budget) and the second time in December/January (after the adoption of the budget), a complete financial programming for headings 1A, 2 (for environment and fisheries), 3A, 3B and 4 of the 2007-2013 Financial Framework. This document, structured by heading, policy area and budget line should identify two phases:

(a) <u>legislation in force</u> with the distinction between multiannual programmes and annual actions:

– for multiannual programmes the Commission should indicate the procedure under which they were adopted (co-decision and consultation), their duration, the reference amounts, the share allocated to administrative expenditure;

– for annual actions (pilot projects, preparatory actions, Agencies) and actions financed under the prerogatives of the Commission, it should provide multiannual estimates and (for pilot projects and preparatory actions) the margins left under the authorised ceilings foreseen in Point D of Annex II of this Agreement.

(b) pending legislation: ongoing Commission's proposals referenced by budget line (lower level), chapter and policy area. A mechanism should be found to update the tables each time a new proposal is adopted in order to evaluate the financial consequences.

The Commission should consider ways of cross-referencing the financial programming with its legislative programming to provide more precise and reliable forecasts. For each legislative proposal, the Commission should indicate whether it is included in the May-December programming or not. The budgetary authority should notably be informed of:

(a) all new legislative acts adopted but not included in the May-December document (with the corresponding amounts);

(b) all pending legislation presented but not included in the May-December document (with the corresponding amounts);

(c) legislation foreseen in the Commission's annual legislative working programme with the indication of actions likely to have a financial impact (yes/no).

Whenever necessary the Commission should indicate the reprogramming entailed by the new legislation proposed.

On the basis of the data supplied by the Commission, stocktaking should be made at each trialogue, provided for in the IIA, as foreseen by the joint statement of July 2000.

D. Agencies and European Schools

47. When drawing up its proposal for the creation of a new agency, the Commission will assess the budgetary implications for the expenditure heading concerned. On the basis of this information and without prejudice to the legislative procedures governing the setting up of the agency concerned, the two arms of the budgetary authority commit themselves, in the framework of budgetary cooperation, to come to a timely agreement on the financing of the agency in question.

    A similar procedure will be applied when the creation of a new European School is envisaged.

E. Adjustment of Structural Funds, Cohesion Fund, Rural Development and the European Fund for Fisheries in the light of the circumstances of their implementation

48. In the event of the adoption after 1 January 2007 of the new rules or programmes governing the Structural Funds, the Cohesion Fund, Rural Development and the European Fund for Fisheries, the two arms of the budgetary authority undertake to authorise, on a proposal from the Commission, the transfer to subsequent years, in excess of the corresponding expenditure ceilings, of allocations not used in 2007.

    The European Parliament and the Council will take decisions on the Commission proposals concerning the transfer of unused allocations of the year 2007 before 1 May 2008, in accordance with Point 3 of the present Agreement.

F. New financial instruments

49. The European Parliament, the Council and the Commission agree that the introduction of co-financing mechanisms is necessary to reinforce the leverage effect of the EU budget by increasing the funding incentive.

They agree to encourage the development of appropriate multiannual financial instruments acting as catalysts for public and private investors.

When presenting the preliminary draft budget, the Commission will report to the budgetary authority about the activities financed by the EIB, the EIF and the EBRD to support investment in research and development, trans-European networks and small and medium-sized enterprises.

ANNEX I

FINANCIAL FRAMEWORK 2007-2013

(EUR billion - 2004 prices)

COMMITMENT APPROPRIATIONS	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	**51.267**	**52.415**	**53.616**	**54.294**	**55.368**	**56.876**	**58.303**	**382.139**
1a Competitiveness for Growth and Employment	8.404	9.097	9.754	10.434	11.295	12.153	12.961	74.098
1b Cohesion for Growth and Employment	42.863	43.318	43.862	43.860	44.073	44.723	45.342	308.041
2. Preservation and Management of Natural Resour	**54.985**	**54.322**	**53.666**	**53.035**	**52.400**	**51.775**	**51.161**	**371.344**
of which: market related expenditure and direct paym	43.120	42.697	42.279	41.864	41.453	41.047	40.645	293.105
3. Citizenship, freedom, security and justice	**1.199**	**1.258**	**1.380**	**1.503**	**1.645**	**1.797**	**1.988**	**10.770**
3a Freedom, Security and Justice	600	690	790	910	1.050	1.200	1.390	6.630
3b Citizenship	599	568	590	593	595	597	598	4.140
4. EU as a global player	**6.199**	**6.469**	**6.739**	**7.009**	**7.339**	**7.679**	**8.029**	**49.463**
5. Administration (1)	**6.633**	**6.818**	**6.973**	**7.111**	**7.255**	**7.400**	**7.610**	**49.800**
6. Compensations	**419**	**191**	**190**					**800**
TOTAL COMMITMENT APPROPRIATIONS	**120.702**	**121.473**	**122.564**	**122.952**	**124.007**	**125.527**	**127.091**	**864.316**
as a percentage of GNI	1,10%	1,08%	1,07%	1,04%	1,03%	1,02%	1,01%	1,048%

TOTAL PAYMENT APPROPRIATIONS	**116.650**	**119.620**	**111.990**	**118.280**	**115.860**	**119.410**	**118.970**	**820.780**
as a percentage of GNI	1,06%	1,06%	0,97%	1,00%	0,96%	0,97%	0,94%	1,00%
Margin available	0,18%	0,18%	0,27%	0,24%	0,28%	0,27%	0,30%	0,24%
Own Resources Ceiling as a percentage of GNI	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%

(1) The expenditure on pensions included under the ceiling for this heading is calculated net of the staff contributions to the relevant scheme, within the limit of € 500 million at 2004 prices for the period 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 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.

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 B(a) and (b), including those proposed in the ad hoc letter of amendment referred to at Point B,

– the amounts to be entered in the budget for non-compulsory expenditure, in accordance with Point 40 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 Committee on Budgets 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 non-compulsory expenditure and, in particular, to discuss the ad hoc letter of amendment referred to in Point B.

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 36 of this agreement.

Furthermore, the three institutions agree to limit the total amount of appropriations for pilot schemes to EUR 40 million in any budget year. They also agree to limit to EUR 50 million the total amount of appropriations for new preparatory actions in any budget year, and to EUR 100 million the total amount of appropriations actually committed for such preparatory actions.

ANNEX III

CLASSIFICATION OF EXPENDITURE

HEADING 1	**Sustainable growth**	
1A	**Competitiveness for growth and employment**	Non-compulsory expenditure (NCE)
1B	**Cohesion for growth and employment**	NCE
HEADING 2	**Preservation and management of natural resources**	NCE
	Except:	
	Expenditure of the common agricultural policy concerning market measures and direct aids, including market measures for fisheries and fisheries agreements concluded with third parties	Compulsory expenditure (CE)
HEADING 3	**Citizenship, freedom, security and justice**	NCE
3A	**Freedom, Security and Justice**	NCE
3B	**Citizenship**	NCE
HEADING 4	**The EU as a global partner**	NCE
	Except:	
	Expenditure resulting from international agreements which the European Union concluded with third parties	CE
	Contributions to international organisations or institutions	CE
	Contributions provisioning the loan guarantee fund	CE
HEADING 5	**Administration**	NCE
	Except:	
	Pensions and severance grants	CE
	Allowances and miscellaneous contributions on termination of service	CE
	Legal expenses	CE
	Damages	CE
HEADING 6	**Compensations**	CE

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).

B. In the conciliation procedure provided for in Annex II, 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

1. Declaration of the Commission on the assessment of the functioning of the IIA

In relation to Point 7 of this Agreement, the Commission will prepare a report on the functioning of the IIA by the end of 2009 accompanied, if necessary, by relevant proposals.

2. Declaration on Point 27

Within the framework of the annual budgetary procedure, the Commission informs the budgetary authority of the amount available for the Flexibility Instrument according to Point 27.

Any decision to mobilise the Flexibility Instrument for an amount exceeding EUR 200 million will imply a carry over decision.

3. Declaration on the Review of the multiannual financial framework

1. In accordance with the conclusions of the European Council, the Commission has been invited to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9. This review should be accompanied by an assessment of the application of the current IIA. The European Parliament will be associated with the review at all stages of the procedure on the basis of the following provisions:

   – during the examination phase following the presentation of the review by the Commission, it will be ensured that appropriate discussions take place with the Parliament on the basis of the normal political dialogue between the institutions and that the positions of Parliament are duly taken into account.

   – in accordance with its conclusions of December 2005, the European Council "can take decisions on all the subjects covered by the review". The European Parliament will be part of any formal follow-up steps in accordance with the relevant procedures in full respect of its established rights.

2. The Commission undertakes, as part of the process of consultation and reflection leading up to the establishment of the review, to draw on the in-depth exchange of views it will conduct with Parliament when analysing the situation. The Commission also takes note of the European Parliament's intention to call for a conference involving the European Parliament and the national parliaments to review the own resources system. It will consider the outcome of any such conference as a contribution in the framework of the above consultation process. It is understood that the Commission's proposals will be put forward entirely under its own responsibility.

4. Declaration on democratic scrutiny and coherence of external actions

The European Parliament, the Council and the Commission acknowledge the need for a rationalisation of the various instruments for external actions. They agree that such a rationalisation of instruments, while enhancing the coherence and the responsiveness of the EU action, should not affect the powers of either the legislative authority – notably in its political control of strategic choices – or the budgetary authority. The text of the relevant regulations should reflect these principles and include where appropriate the necessary policy content and an indicative breakdown of resources and, where necessary, a review clause aiming at evaluating the implementation of the regulation after three years at the latest.

Under the co-decided basic instruments, the Commission will systematically inform and consult the European Parliament and the Council by sending draft country, regional and thematic strategy papers.

Where the Council decides on the transition of potential candidates to pre-accession candidates during the period covered by this Agreement, the Commission will revise and communicate to the European Parliament and the Council an indicative multiannual financial framework according to Article 4 of the IPA Regulation to take account of the expenditure requirements resulting from such a transition.

The Commission will provide in the preliminary draft budget a nomenclature which ensures the prerogatives of the budgetary authority for external actions.

5. Declaration of the Commission on the democratic scrutiny and coherence of external actions

The Commission undertakes to enter into a regular dialogue with the European Parliament on the content of the draft country, regional and thematic strategy papers and to take due account of the position of the European Parliament when implementing the strategies.

This dialogue includes a discussion on the transition of potential candidates to pre-accession status during the period of this agreement.

6. Declaration on the revision of the Financial Regulation

Within the framework of reviewing the Financial Regulation the Institutions commit themselves to improve implementation of the budget and increase the visibility and the benefit of EU funding towards the citizens without putting into question the progress achieved in the 2002 recasting. They will also seek, as far as possible, during the final stage of the negotiations of the revision of the Financial Regulation and its Implementing Rules, the right balance between the protection of financial interests, the principle of proportionality of administrative cost, and user-friendly procedures.

The review of the Financial Regulation will be adopted on the basis of a modified proposal from the Commission following the conciliation procedure established by the Joint Declaration of the European Parliament, the Council and the Commission of 4 March 1975, in the spirit which enabled agreement to be reached in 2002. They also seek close and constructive inter institutional cooperation for the swift adoption of the Implementing Rules in order to simplify procedures for funding whilst ensuring a high protection of the Union's financial interests.

The European Parliament and the Council are firmly committed to conclude the negotiations on the Financial Regulation so as to allow its entry into force, if possible, on 1 January 2007.

7. Declaration of the Commission on the revision of the Financial Regulation

Within the framework of reviewing the Financial Regulation, the Commission commits itself:

- to inform the European Parliament and the Council if in a proposal for a legal act, it deems it necessary to depart from the provisions of the Financial Regulation, and to state the specific reasons for it;

- to ensure that regular legislative impact assessments, having due regard to the principles of subsidiarity and proportionality, are conducted on important legislative proposals and any substantive amendments thereof.

8. Declaration on new financial instruments

The European Parliament and the Council invite the Commission and the EIB, in their respective spheres of competence, to make proposals:

- in accordance with the conclusions of the European Council in December 2005, to increase the EIB's capacity for research and development loans and guarantees up to EUR 10 billion in the period 2007-2013 with an EIB contribution of up to EUR 1 billion from reserves for risk-sharing financing (RSFF);

- to reinforce the instruments in favour of Trans European Networks (TEN) and Small and Medium- sized Enterprises up to an approximate amount of loans and guarantees comprised between EUR 20 billion and EUR 30 billion respectively, with an EIB contribution of up to EUR 0.5 billion from reserves (TEN) and up to EUR 1 billion (Competitiveness and Innovation) respectively.

9. Declaration of the European Parliament on voluntary modulation

The European Parliament takes note of the December 2005 European Council conclusions concerning voluntary modulation from the first pillar of CAP to Rural development up to a maximum of 20% and the reductions for market expenditure. When laying down the modalities of the relevant legal acts, the European Parliament will evaluate the feasibility of these provisions in respect of EU principles, such as competition rules and others; the European Parliament currently reserves it position on the outcome of the procedure. It considers that it would be useful to assess the issue of co-financing of agriculture in the context of the 2008-09 review.

10. Declaration of the Commission on voluntary modulation

The Commission takes note of the December 2005 European Council conclusions (§ 62) whereby Member States may transfer additional sums from the first pillar of the CAP to Rural Development up to a maximum of 20% of the amounts that accrue to them from market related expenditure and direct payments.

When laying down the modalities of the relevant legal acts, the Commission will endeavour to make voluntary modulation possible whilst making all efforts to ensure that such a mechanism reflects as close as possible the basic rules governing rural development policy.

11. Declaration of the European Parliament on Natura 2000

The European Parliament expresses its concern about the December 2005 European Council conclusions relating to the reduction of pillar one of the CAP and its consequences on Community co-financing of Natura 2000. It invites the Commission to evaluate the consequences of these provisions before making new proposals. It considers that appropriate priority should be given to the integration of Natura 2000 in Structural Funds and Rural Development.

12. Declaration of the European Parliament on private co-financing and VAT for cohesion for growth and employment

The European Parliament takes note of the December 2005 European Council conclusion on the application of the *n*+3 automatic decommitment rule on a transitional basis; the European Parliament invites the Commission when laying down the modalities of the relevant legal acts to ensure common rules for private co-financing and VAT for cohesion for growth and employment.

13. Declaration of the European Parliament on financing the Area of Freedom, Security and Justice

The European Parliament considers that when presenting the preliminary draft budget the Commission should make a careful estimate of planned activities for Freedom, Security and Justice and that the financing of these activities should be discussed in the framework of the procedures provided for in Annex II of the current IIA.