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COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION WORKING DOCUMENT

**Contribution to the interinstitutional negotiations on the
Proposal for renewal of the
INTERINSTITUTIONAL AGREEMENT
on budgetary discipline and improvement of the budgetary procedure**

EXPLANATORY MEMORANDUM

In its conclusions the December European Council *"calls on the Council, on the basis of a common position and subject to acceptable terms being attainable, to reach agreement with the European Parliament and the Commission on a new IIA reflecting the outcome of these conclusions."*

The European Parliament, in its resolution of 18 January 2006, declared itself *"willing to enter into constructive negotiations with the Council on the basis of respective positions provided the Austrian Presidency [was] entrusted with a real negotiating mandate"*.

The European Parliament, the Council and the Commission agreed on a series of meetings (trilogues) in order to provide a structured framework to the negotiations.

On 1 February 2006, the Commission approved a working document on a modified Interinstitutional Agreement (IIA) proposal. This proposal was accompanied by a letter from President Barroso which notably comments on *'some issues which are not included in the proposal for an IIA but are of importance for the forthcoming negotiations.'*

The objective of the present Commission Working Document is to translate in a more formal way some of the issues referred to in the letter from President Barroso and to submit them to the Trilogue of 21 February as concrete elements for the negotiation.

In addition to these specific points, a number of other items identified during the inter-institutional discussions so far have already received a formal answer in the draft Interinstitutional agreement presented on 1 February by the Commission.

These include, notably, flexibility, for which the Commission proposed different tools increasing the volume and scope of flexibility in order to react properly to changing needs and challenges. As it is the case in the current Financial Perspectives, the proposed IIA also includes a specific heading for the administrative expenditure of all the institutions. As regards budgetary discipline, the Commission maintained in the draft of 1 February all existing provisions, including on CFSP. On the review clause, the Commission has proposed to present a comprehensive White Paper covering all aspects of the financial framework, revenues and expenditure. This exercise will include wide consultations to be reflected in the ensuing proposals for the possible modification of the different aspects of the budget. One of the issues to be addressed in this context will be the need to give the European Union more transparent and independent own resources to replace the existing system. In this respect, the Commission notes the intention of the European Parliament to organise a conference, involving also the national parliaments.

1. NEW FINANCIAL INSTRUMENTS

For the future financial framework period, the Commission intends to increase the leverage of EU funds by improving synergies between the action of the EU budget and the activities of the European Investment Bank (EIB). It has notably already proposed the creation of a risk sharing finance facility to boost the financing of research and is working on a special instrument to mobilise funds for the implementation of TEN - Transport projects. It is also preparing in close contact with the EIB and the EIF special actions in favour of SMEs, to support for instance venture capital for high growth technology driven companies.

Proposed text on new financial instruments

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 all types of financial instruments acting as catalysts for public and private investors. The objective is to increase up to EUR 10 billion the EIB's capacity for research and development loans in the period 2007-2013. Moreover, the instruments in favour of Trans-European Networks, and Small and Medium-sized Enterprises are to be reinforced. The Commission will make proposals, accordingly and will report back to the budgetary authority about the activities financed by the EIB, the EIF and the EBRD (relevant in the case of new Member States) to support investment in all those areas.

2. FINANCIAL REGULATION

The Commission recognises the need for a better implementation of the Budget without putting in question the progress achieved in the last 2002 recasting¹. To this end the Commission has already proposed a major review of the Financial Regulation and of its implementing rules in force. The Commission considers that the revision of the Financial Regulation has to stem from a real conciliation procedure, following the 1975 Joint Declaration².

Proposed text on the Financial Regulation

The institutions have a shared responsibility for the review of the Financial Regulation 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. As in 2002, the European Parliament, the Council and the Commission agree that the review of the Financial Regulation is completed successfully through a real conciliation procedure, on the basis of its modified proposal, which forges effective consensus between the European Parliament and Council. They also seek close and constructive inter-institutional cooperation for the swift conclusion 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 in due time to allow for its entry into force on 1 January 2007.

¹ Council Regulation (EC, Euratom) n°1605/2002 of 25 June 2002.

² Joint Declaration of the European Parliament, the Council and the Commission concerning the institution of a conciliation procedure between the European Parliament and the Council, 4.3.1975, OJ C 89 of 22.4.1975, p. 1.

3. CERTIFICATION BY MEMBER STATES

The Commission has undertaken very important reforms to improve the financial management of all Budget sectors. In its communication COM(2005) 9 of 17 January 2006 the Commission defined an action plan towards an integrated control framework in line with the views expressed by the Court of Auditors and the European Parliament. An appropriate follow-up of this action plan has to be ensured in particular in the field of national declarations and the definition of the level of risk to be tolerated.

Proposed text on ensuring effective and integrated internal control of Community funds

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 managerial accountability under shared management in the form of national declarations. Member States will designate the bodies to be responsible for declarations before September 2006.

4. DEMOCRATIC SCRUTINY AND COHERENCE OF EXTERNAL ACTIONS

The Commission is determined to promote policy coherence in Europe's external action and avoid the unnecessary multiplication and rigidity of external action instruments. The Commission agrees that the proposed rationalisation of instruments should not reduce the powers of either the legislative authority or the budgetary authority. The Commission stands ready to work constructively on the text of the external regulations proposed.

Proposed text 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 reduce the powers of either the legislative authority or the budgetary authority. The text of the relevant regulations should reflect these principles and, where appropriate, include the necessary policy content and an indicative breakdown of resources.

5. AGENCIES

Concerns have been expressed about the increase in the number of agencies, and the need to ensure that this does not result in the transfer of Community competencies to inter-governmental structures. The Commission also recognizes that possible difficulties could stem from the creation of new agencies during the financial framework 2007-2013, in particular when their financing would be under already tight ceilings. In order to respond to these concerns, the Commission proposes that, whenever it is envisaged to create a new agency, its financial impact be discussed by the Budgetary Authority during a trilogue, on the basis of a Commission analysis.

Proposed text on Agencies

Before taking any decision on the creation of a new agency, the Commission will assess the budgetary implications for the expenditure heading concerned. On the basis of this information, the two arms of the Budgetary Authority commit themselves in the framework of budgetary cooperation to come to an agreement on the financing of the concerned agency before the underlying legal base comes into force.

6. OWN RESOURCES

The draft Interinstitutional agreement presented on 1 February by the Commission already includes a review clause. According to this provision, the Commission shall present a comprehensive White Paper covering all aspects of the EU budget, revenues and expenditure. This exercise, to be launched after final agreement has been reached among the Institutions on all elements of the next Financial Perspectives, will be the fruit of detailed preparation and wide consultation. Concerning the revision of the own resources system, and in order to deliver orientations in view of Commission proposals, the European Parliament would like to call for a conference involving the European Parliament and the national parliaments.

Proposed text on Own Resources

In the context of the future revision of the own resources system, the institutions take note of the European Parliament intention to organise a conference of representatives of the European Parliament and the national parliaments.

7. FINANCIAL PROGRAMMING

Financial Programming continues to have a crucial role for the annual budgetary procedure. The Commission intends to respect the commitments it has undertaken in the past concerning the information of the two arms of the budgetary authority on Financial Programming.

Proposed text on Financial Programming

The European Parliament, the Council and the Commission acknowledge the importance of Financial programming and maintain the agreement reached on this subject during the conciliation meeting of 16 July 2004. In particular Financial Programming has to be updated by the Commission twice a year and considered, if necessary, at each trilogue meeting provided for in the Interinstitutional Agreement of ...