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2011/177 (APP)

Proposal for a

**COUNCIL REGULATION**

**laying down the multiannual financial framework for the years 2014-2020**

## EXPLANATORY MEMORANDUM

### 1. CONTEXT OF THE PROPOSAL

#### 1.1. Treaty basis

Article 312 of the Treaty on the Functioning of the European Union (hereinafter referred to as the Treaty) stipulates that a unanimously adopted Council Regulation shall lay down a multiannual financial framework. It *shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations* and it *shall lay down any other provisions required for the annual budgetary procedure to run smoothly*.

The first multiannual financial framework together with provisions on interinstitutional cooperation and budgetary discipline was adopted more than twenty years ago<sup>1</sup>. This and the following financial frameworks allowed for considerably improving and facilitating the annual budgetary procedure and cooperation between institutions and, at the same time, increasing budgetary discipline.

By enshrining the multiannual financial framework into the Union's primary law, the Treaty has recognised its importance as a cornerstone of the budgetary architecture of the European Union.

The current multiannual financial framework for the years 2007 to 2013 was agreed between institutions in May 2006 and laid down in the Interinstitutional Agreement on budgetary discipline and sound financial management<sup>2</sup> (hereinafter referred to as the current IIA).

In order to implement the new Treaty provisions, the Commission presented, on 3 March 2010, proposals for a Council Regulation laying down the multiannual financial framework for 2007-2013 and for a new Interinstitutional Agreement on cooperation in budgetary matters<sup>3</sup> (hereinafter referred to as the March 2010 proposals). These two proposals, once adopted, will replace the current IIA and bring the provisions on the 2007-2013 financial framework and on cooperation of the institutions in the budgetary procedure in line with the Treaty. Meanwhile, the provisions of the current IIA that are not rendered obsolete by the Treaty remain valid.

The present explanatory memorandum deals with the new elements as compared with the March 2010 proposals, for both the proposal for a Regulation laying down the multiannual financial framework for the years 2014 to 2020 (hereinafter referred to as the MFF Regulation) and the draft Interinstitutional Agreement on cooperation in budgetary matters and sound financial management (hereinafter referred to as the draft IIA). The justification for changes resulting from the entry into force of the Treaty was provided in the explanatory memorandum of the proposal for the Regulation laying down the multiannual financial framework for 2007 to 2013 of 3 March 2010 and does not need to be repeated here.

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<sup>1</sup> Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure, signed by Parliament, the Council and the Commission on 29 June 1988 (OJ L 185, 15.7.1988, p. 33).

<sup>2</sup> Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (OJ C 139, 14.6.2006, p. 1).

<sup>3</sup> COM(2010) 72 and COM(2010) 73

## **1.2. New provisions proposed for the 2014-2020 financial framework**

### *1.2.1. Main political guidelines*

The proposal for the MFF Regulation accompanied by the draft IIA represents the legal transposition of the Commission Communication on "A Budget for Europe 2020" adopted on 2] June 2011<sup>4</sup>. It will be complemented by a proposal amending the Commission's proposal for a Regulation on the financial rules applicable to the annual budget of the Union in order to introduce a few new provisions which are part of the package of proposals for the 2014-2020 financial framework.

The Communication outlines the main architecture and elements of the present proposals – e.g. the duration, the structure reflecting the Europe 2020 Strategy, the need for increased flexibility, and the amounts foreseen for the financial framework itself.

### *1.2.2. Flexibility*

Whilst aimed at ensuring budgetary discipline the financial framework must, at the same time, provide for adequate levels of flexibility to allow for effective resources allocation and a swift Union response to unforeseen circumstances.

A number of parameters, such as the length of the period covered by the financial framework, the number and design of expenditure headings, the share of EU spending pre-allocated to Member States and regions or pre-determined by 'amounts of reference' in co-decided legislation, the margins available within each expenditure ceiling, and the margins left between the financial framework ceilings and the own resources ceiling, impact on the degree of flexibility or rigidity of a financial framework. When elaborating its proposals for the next financial framework, the Commission has taken those elements into account.

However, recent experience demonstrates that challenges resulting from unforeseen events with global repercussions have reached a new quality. From the very beginning of the current financial framework all available flexibility provisions had to be mobilised, including a number of revisions of the framework itself. The Union will increasingly be exposed to the effects of globalisation of the economy and society, to climate change, energy dependency, migratory pressure and other global challenges, most of which in areas for which the Lisbon Treaty has increased the Union's responsibility and role.

Finding the right balance between, on the one hand, strict budgetary discipline and predictability of expenditure and, on the other hand, the flexibility needed to enable the Union to respond to unforeseen challenges, will always be a difficult political exercise. On the basis of its assessment of the functioning of the current IIA<sup>5</sup> and of further reflections undertaken in the context of the Budget Review<sup>6</sup>, the Commission proposes limited but targeted improvements to existing flexibility provisions:

1. Firstly, the wide and regular use made of the Flexibility Instrument and the Emergency Aid Reserve (EAR) during the current financial framework has proven their necessity. At the same time experience with the management of, notably,

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<sup>4</sup> COM(2011) 500, 29.6.2011.

<sup>5</sup> COM(2010) 185 final of 27.4.2010, chapter 2 (pages 4 to 13).

<sup>6</sup> COM(2010) 700 final of 19.10.2010, in particular section 4.5 to 4.7 (pages 23 to 25).

External Action over the past few years has shown that the EU had to make a cumbersome use of different instruments (such as the Emergency Aid Reserve, the Instrument for Stability, unallocated margins, and the Flexibility Instrument) to address international developments and new challenges.

Therefore, an increase of the maximum amounts available each year is proposed for both the Flexibility Instrument and the EAR. Furthermore, the possibility to use unused portions of the yearly maximum amounts in subsequent financial years is extended to the year  $n + 3$  for the Flexibility Instrument and newly introduced, up to the year  $n+1$ , for the Emergency Aid Reserve (the latter subject to a provision to be made in the Financial Regulation). The scope of the Emergency Aid Reserve is broadened to cover also situations of particular pressure resulting from migratory flows at the Union's external borders.

This should allow the two instruments to contribute more to a swift Union response to unexpected situations of a limited scale.

2. Secondly, whilst the European Union Solidarity Fund and the European Globalisation Adjustment Fund (EGF) have proven their utility, the maximum annual amount foreseen for the EGF under the current financial framework (EUR 500 million) has never been used. A modest decrease of the amount available to EUR 429 million is proposed together with a simplification of the procedures for financing and releasing assistance and a broadening of the scope of the Fund to help mitigate also effects of globalisation affecting farmers.
3. Thirdly, the possibility to differ from the indicative amounts in the co-decided programmes is proposed to be increased from 5% to 10% to increase flexibility within headings.
4. Fourthly, the Commission will make a proposal for introducing a new provision in the Financial Regulation with a view to increasing flexibility for projects financed under the newly established Infrastructure Facility.

Due to their nature those infrastructure projects will in many cases require complex contracting procedures. Under those circumstances, even limited delays may result in a loss of annual commitment appropriations and undermine the viability of those projects and thus of the Union's political determination to modernise its transport, energy and telecommunications networks and infrastructure. To prevent this, the Financial Regulation should allow for automatic carry-over to the following financial year of commitment appropriations not used at the end of a financial year for projects financed under the Infrastructure Facility.

5. Fifthly, given the vulnerability of the agricultural sector to major crises, a new Special Reserve for crises in the agriculture sector is proposed with an annual amount of 500 million to be mobilised over and above the ceilings of the financial framework. The procedure for mobilisation of this Reserve corresponds to the one for the Emergency Aid Reserve. Detailed rules for eligibility for the assistance from this Reserve will be laid down in its specific legal act.
6. Finally, a revision of the financial framework will continue to be needed for dealing with unforeseen circumstances with a major financial impact. To allow for a similar

level of flexibility compared to the current IIA, a 'Contingency Margin' is proposed that can be mobilised over and above the ceilings of the financial framework within the limits of 0.03% of the EU GNI through the same procedure as established under Point 22 of the current IIA.

The provisions on flexibility proposed for the MFF Regulation and the draft IIA follow the approach of the March 2010 proposals: Article 2 of the Regulation provides for the possibility to mobilise the amounts of the special instruments outside the financial framework over and above the ceilings set by the financial framework. The provisions on the instruments themselves, their amounts and mobilisation procedures are included in the IIA. In this way coherence of procedures and roles of the two arms of the budgetary authority are ensured (see Points 10 to 15 of the draft IIA).

### *1.2.3. Specific provisions on guarantees*

If the repayment of a guaranteed loan provided under the Balance of Payments Facility ("BoP") or under the European Financial Stabilisation Mechanism ("EFSM") has to be covered by the Union's budget, Regulation No 1150/2000 foresees a possibility to call additional own resources to respect the Union's budget's legal obligation. This cash operation would have to be followed by a budgetary operation – i.e. introduction of an amending budget. Any amending budget has to comply with the MFF ceilings. Given the amounts involved (the EFSM and BoP guaranteed loans), this would almost certainly require a revision of the MFF.

It is highly unlikely that this situation will ever occur but in order to avoid any potential difficulties it is proposed to include in the MFF Regulation a provision excluding such potential expenditure from the financial framework (i.e. if need be the amounts would be mobilised over and above the ceilings of the financial framework).

The relevant ceiling constraining the Union's capacity to guarantee lending from the Union's budget is the own resources ceiling not the MFF ceiling. Requiring a revision of the MFF in case of activation of this guarantee would seem to run contra to the intentions of the legislator.

### *1.2.4. Contribution to the financing of large scale projects*

The characteristics of major technological development programmes based on large scale infrastructure projects, notably the European satellite navigation programmes EGNOS and Galileo, call for specific provisions aimed at 'ring-fencing' the amounts corresponding to the contribution from the Union's budget. In the light of the experience made with the 2007-2013 financial framework, these new provisions are needed in order to safeguard the orderly development of Union expenditure and for the annual budgetary procedure to run smoothly.

The legislative acts concerning the above mentioned programmes shall comply with the financial provisions set in the present Regulation.

## **2. LEGAL ELEMENTS OF THE PROPOSAL**

### **2.1. Multiannual Financial Framework Regulation**

#### *Article 1*

The wording of Article 1 specifies the duration of the financial framework and refers to the Annex containing the table of the financial framework.

#### *Article 2 – Compliance with ceiling of the MFF*

The first paragraph of Article 2 lays down an obligation for the institutions to respect the ceilings during the budgetary procedure in compliance with the provisions of the Treaty.

The second paragraph introduces the possibility to exceed the ceilings, if necessary, when the instruments not included in the financial framework are mobilised. The Emergency Aid Reserve, the Solidarity Fund, the Flexibility instrument, the European Globalisation Adjustment Fund and the newly created Reserve for crises in the agriculture sector and the Contingency Margin are defined in Points 10 to 15 of the draft IIA. They are not included in the financial framework and ensure that financing in specific circumstances is provided in excess of the ceilings of the financial framework, if needed. They increase the flexibility of the financial framework and are mobilised jointly by the two arms of budgetary authority. In order to maintain the current level of flexibility and the roles of the institutions in the mobilisation of these instruments, the provisions governing them are included in the draft IIA.

The third paragraph excludes the procedure of mobilising the guarantees from the Union's budget for the loans provided under the Balance of Payments Facility and European Financial Stabilisation Mechanism from the obligation to respect the ceilings of the financial framework and therefore from a need to revise the MFF. The relevant ceiling that needs to be respected is the own resources ceiling.

#### *Article 3 – Respect of own resources ceiling*

A change to this Article is proposed compared to the March 2010 proposal – an explicit reference to the fact that the use made of instruments which can be mobilised from outside the financial framework and of guarantees for a loan covered by the Union's budget according to Regulation (EC) No 332/2002 or Regulation (EU) No 407/2010 also need to respect the own resources ceiling.

#### *Article 4 – Technical adjustment of the financial framework*

The financial framework is presented in 2011 prices. The procedure for its technical adjustment is maintained as well as the 2% deflator. A new element is introduced in paragraph 1(c) – the presentation of the absolute amount of the Contingency margin at the level of 0.03% of EU GNI as defined in Point 15 of the draft IIA .

#### *Article 5 – Adjustment of cohesion policy envelopes*

This Article reproduces the text of point 17 of the current IIA and Article 5 of the March 2010 proposal. The changes introduced reflect the timing for the 2014-2020 financial framework and the change of the financial framework structure.

#### *Article 6 – Adjustments related to implementation*

The wording of this Article, which lays down rules for the adjustments related to implementation, corresponds to Point 18 of the current IIA. No changes proposed compared to the March 2010 proposal.

#### *Article 7 – Adjustment of Structural Funds, Cohesion Fund, Rural Development and the European Fund for Fisheries*

This Article reproduces the text of Point 48 of the current IIA. The preparation of the legal bases and then programming documents is usually quite lengthy and therefore a late adoption of the legal texts or programmes needs to be envisaged.

#### *Article 8 – Adjustments related to the excessive government deficit*

The wording of this Article, which lays down rules for the adjustments related to excessive government deficit, reproduces the text of Point 20 of the current IIA and has not been changed compared to the March 2010 proposal.

#### *Article 9 – Revision of the financial framework*

The wording of this Article corresponds to the Points 21 to 23 of the current IIA and Article 8 of the March 2010 proposal. A few changes have been introduced: 1. the general rule concerning the timing of a proposal for a revision, as included in Article 8(2) of the March 2010 proposal, has been dropped as it did not correspond to current practice given the need to deal with unforeseen circumstances when they arise; 2. the possibility to adapt the financial framework by qualified majority as proposed in Art. 8(3) in March 2010 has been withdrawn (given the proposed widening of flexibility instruments, including the introduction of the Contingency Margin); and 3. a new paragraph 5 was introduced which specifies which of the adjustments to the financial framework provided for in other Articles are also to be considered as a revision of the financial framework.

#### *Article 10 – Adjustment of the financial framework in case of a revision of the Treaty*

The wording of this Article, which lays down rules for the adjustments in case of a revision of the Treaty, reproduces the text of Point 4 of the current IIA and corresponds to Article 9 of the March 2010 proposal.

#### *Article 11 – Adjustment of the financial framework in the case of enlargement*

The wording of this Article reproduces the text of Point 29 of the current IIA and Article 11 of the March 2010 proposal.

A new paragraph is introduced with particular reference to a possible comprehensive settlement of the Cyprus problem during the period covered by the financial framework.

#### *Article 12 – Interinstitutional cooperation in budgetary procedure*

The provisions of this Article correspond to the March 2010 proposal. The general rules of the cooperation in budgetary procedure are included in the MFF Regulation, whilst the draft IIA and its Annex contain more detailed provisions.

### *Article 13 – Financing of the Common Foreign and Security Policy (CFSP)*

The provision of the March 2010 proposal is maintained with an exception of establishing the minimum amount for CFSP.

### *Article 14 – Contribution to the financing of large scale projects*

Specific provisions are needed for major technological development programmes based on large scale infrastructure projects, notably the European satellite navigation programmes EGNOS and Galileo. Such provisions are warranted by the specific features of those projects, i.e. a duration largely exceeding the multiannual financial framework, project risks liable to produce substantial cost-overruns, limited or no participation of private capital, and no or only a modest ability to generate revenues from commercial exploitation in the short to medium-term.

Consequently, the proposed provision foresees a 'ring-fencing' of the amount available for the European satellite navigation programmes EGNOS and Galileo under the 2014-2020 financial framework.

### *Article 15 – Mid-term assessment of implementation of the financial framework*

A new provision is included that establishes the timing for a mid-term assessment of the functioning of the financial framework. A similar provision was included in the current IIA (Point 7 and Declaration No 1).

### *Article 16 - Transition towards the next financial framework*

This Article lays down the obligation for the Commission to present a new financial framework before 1 January 2018, i.e. three years before the end of the financial framework.

The second paragraph recalls the rules in case no new financial framework is agreed by the end of the financial framework covered by the Regulation.

### *Article 17*

The final Article of the MFF regulation sets the date of entry into force of the Regulation. The IIA should enter into force on the same day as the two legal texts complement each other.

## **2.2. Interinstitutional Agreement on cooperation in budgetary matters and on sound financial management**

### **Introduction – Points 1 to 6 of the draft IIA**

The introductory part of the draft IIA introduces the Treaty reference (Art. 295), the binding nature of this agreement, its coherence with other legal acts linked to the multiannual financial framework and the budgetary procedure, describes the structure of the Agreement, and stipulates the date of its entry into force (the same date as the MFF Regulation).

It reproduces the wording of Points 1 to 6 of the March 2010 proposal.



## **Part I – provisions related to the financial framework and special instruments not included in the financial framework**

### *A. Provisions related to the financial framework*

Point 7 provides for the rules on presenting information about operations not included in the budget (i.e. European Development Fund) and about the development of the categories of own resources. The practice of providing this information is maintained but it is proposed to present it no longer with the technical adjustment of the financial framework but with the documents accompanying the draft budget where this more logically belongs. The timing of the presentation remains practically the same (end of April/beginning of May). This change has been included already in the March 2010 proposal.

Point 8 of the new IIA concerns the margins beneath the ceilings. The MFF Regulation establishes the ceilings for all headings that have to be respected during each annual budgetary procedure as required by the Treaty. However, the practice to ensure as far as possible sufficient margins beneath the ceilings should be preserved. It constitutes an element of the interinstitutional cooperation and good will of the institutions in the budgetary procedure and as such belongs in the IIA. The provision is kept without any changes to the current practice and also compared to the March 2010 proposal.

Point 9 provides for an update of forecast for payment appropriations after 2020 in the fourth year of the financial framework, according to the current practice and the March 2010 proposal.

### *B. Provisions related to the special instruments not included in the financial framework*

The existing instruments that are not included in the financial framework (the Emergency Aid Reserve, the Solidarity Fund, the Flexibility instrument and the European Globalisation Adjustment Fund) are maintained in the IIA. The MFF Regulation includes in Article 2 the possibility to mobilise them, if necessary, over and above the ceilings established by the financial framework. This split of the provisions between the two acts corresponds to the logic presented in March 2010 proposals.

The changes compared to the March 2010 proposal consist of the increase of the amounts for the Flexibility instrument and the Emergency Aid Reserve, a decrease of the amount of the European Globalisation Adjustment Fund, the introduction, subject to a provision to be introduced in the Financial Regulation, of the possibility to use unused portions of annual amounts available under the EAR until the year  $n+1$  and broadening its scope to cover also situations of particular pressure resulting from migratory flows at the Union's external borders, the prolongation of that possibility for the Flexibility instrument from year  $n+2$  to year  $n+3$ , as well as deleting the provisions which limit the yearly amounts available under the European Globalisation Adjustment Fund (EGF) to the availability of unspent and decommitted amounts from the previous two years and broadening its scope to help mitigate effects of globalisation affecting farmers. All amounts are expressed in 2011 prices to be coherent with the overall presentation of the financial framework. The mobilisation procedures are simplified compared to the current practice.

A new Reserve for major crises in the agriculture sector is proposed. Detailed rules for the eligibility of the assistance from this Reserve will be laid down in a specific legal base. The IIA defines the amount and the rules for its mobilisation.

A new instrument outside the financial framework – the 'Contingency Margin' - is proposed. The wording corresponds, in substance, to the provisions adopted by the Council in its position of 18 January 2011 on the March 2010 proposals. However, the split of provisions on the Contingency Margin corresponds to the logic of the March 2010 proposals – i.e. maintaining in the IIA all the provisions related to the special instruments outside the financial framework.

## **Part II – improvement of interinstitutional cooperation in budgetary procedure**

### *A. The interinstitutional collaboration procedure*

The provisions on interinstitutional cooperation in budgetary procedure have been significantly amended compared to the current rules to comply with the new budgetary procedure introduced by the Treaty. All the provisions are included in the Annex of the IIA as proposed in March 2010.

The provisions included in the annex correspond to the March 2010 proposal but incorporate the changes agreed since in the Declarations by the institutions.

### *B. Incorporation of financial provisions in legislative acts*

The provisions of the current IIA and therefore also of the March 2010 proposal are maintained. The possibility to depart from the amounts included in the legislative acts is increased from 5% to 10% in order to increase flexibility within the headings. This provision does not apply to amount pre-allocated to Member States for the whole duration of the financial framework and newly to the large scale project defined in Article 13 of the MFF Regulation.

### *C. Expenditure relating to fisheries agreements*

It is proposed to align the provisions of the current IIA on the expenditure relating to fisheries agreements with the new budgetary rules. The proposed change in wording reflects those parts of the existing text which are still relevant and they are purely related to good cooperation and keeping the institutions informed of developments. The provisions correspond to the March 2010 proposal, no changes were deemed necessary.

### *D. Financing of the Common Foreign and Security policy*

The provisions correspond to the March 2010 proposal, no changes were deemed necessary.

### *E. Involvement of the institutions in the management of the European Development Fund*

In order to improve parliamentary scrutiny of the European Development Fund (EDF) and bring it closer to the rules of the Development Cooperation financed by the Union's budget, a new provision is proposed to be introduced concerning the dialogue with the European Parliament on the programming documents to be financed by the EDF.

### *F. Cooperation of the institutions in the budgetary procedure on administrative expenditure*

A new provision is introduced aimed at making sure that institutions agree each year at an early stage of the budgetary procedure (timing introduced in Annex) on the sharing of administrative expenditure; the annual variation in the level of administrative expenditure for

each institution should also reflect the possible budgetary impact from changes to provisions in the staff regulations and the impact of progressively reducing staff levels by 5% between 2013 and 2018 in all institutions, bodies and agencies.

### **Part III – Sound financial management of EU funds**

This part reproduces the text of the March 2010 proposal on the Financial programming (with a few adjustments to bring the text closer to the current practice) and on Agencies and European Schools (with an addition to follow the same rules as for setting up any new Agency to modifying the relevant legal act or modifying the tasks of any agency and a specification on the details of the impact assessment to be undertaken by the Commission before presentation of a proposal to establish a new Agency or a new European School).

The section on New or Innovative Financial Instruments is no longer necessary as the Financial Regulation will include a new Title entirely devoted to financial instruments and with detailed rules for reporting on those instruments.

Proposal for a

## **COUNCIL REGULATION**

**laying down the multiannual financial framework for the years 2014-2020**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the functioning of the European Union, and in particular Article 312 thereof, in conjunction with the Treaty establishing the European Atomic Energy Community, and in particular Article 106a thereof,

Having regard to the proposal from the European Commission<sup>7</sup>,

Having regard to the consent of the European Parliament<sup>8</sup>,

After transmission of the draft legislative act to national Parliaments,

Acting in accordance with a special legislative procedure,

Whereas:

- (1) The annual ceilings on commitments appropriations by category of expenditure and the annual ceilings on payment appropriations established by this Regulation must respect the ceilings set for commitments and own resources in [Council Decision XXXX/XX/EU, Euratom].
- (2) Taking into account the need for an adequate level of predictability for preparing and implementing medium-term investments, the duration of the financial framework should be set at seven years starting 1 January 2014, with an assessment of the implementation of the financial framework at mid-term. The results of this assessment should be taken into account during the last three years of the duration of the financial framework.
- (3) Special instruments, the Emergency Aid Reserve, the European Union Solidarity Fund, the Flexibility Instrument, the European Globalisation Adjustment Fund, the Reserve for crises in the agriculture sector and the Contingency Margin, are necessary to allow the Union to react to specified unforeseen circumstances, or to allow the financing of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more headings as laid down in the financial framework. Specific provisions are therefore necessary to provide for a possibility to

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<sup>7</sup> OJ C , , p. .

<sup>8</sup> OJ C , , p. .

enter in the budget commitment appropriations over and above the ceilings set out in financial framework where it is necessary to use special instruments.

- (4) If it is necessary to mobilise the Union's budget guarantees for the loans provided under the Balance of Payment Facility and the European Financial Stabilisation Mechanism set out in Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments<sup>9</sup> and in Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism<sup>10</sup>, the necessary amount should be mobilised over and above the ceilings of the commitments and payments appropriations of the financial framework while respecting the own resources ceiling.
- (5) The financial framework should be laid down in 2011 prices. The rules for technical adjustments of the financial framework to recalculate the ceilings and margins available should also be laid down.
- (6) The financial framework should not take account of budget items financed by assigned revenue within the meaning of Regulation (EU) No [xxx/201x] of the European Parliament and of the Council of [...] on the financial rules applicable to the annual budget of the Union<sup>11</sup>.
- (7) Rules should be laid down for other situations that may require the financial framework to be adjusted. Those adjustments may be related to the implementation of the budget, excessive government deficit, revision of the Treaties, enlargements or delayed adoption of new rules governing certain policy areas.
- (8) The national envelopes for Cohesion for growth and employment are established on the basis of forecast for Gross Domestic Product (hereinafter "GDP") of spring 2011. Given the forecasting uncertainties and the impact for the capped Member States an assessment should be made in mid-term to compare the forecasted and actual GDP and its impact for the envelopes. In case the GDP for 2014-2016 differs more than +/- 5% from the forecast used in 2011 the envelopes for 2018-2020 for the Member States concerned need to be adjusted. The rules for this adjustment need to be provided for.
- (9) The financial framework may need to be revised in case of unforeseen circumstances that cannot be dealt with within the established ceilings of the financial framework. It is therefore necessary to provide for revision of the financial framework in such cases.
- (10) It is necessary to provide for general rules on interinstitutional cooperation in the budgetary procedure.
- (11) In order to help the budgetary procedure to run smoothly, it is necessary to provide for the basic rules for the budgeting of the expenditure for the Common Foreign and Security policy and overall amount for the period covered by the financial framework.
- (12) Detailed arrangements on interinstitutional cooperation in the budgetary procedure and on the budgeting of the expenditure for the Common Foreign and Security policy are

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<sup>9</sup> OJ L 53, 23.2.2002, p. 1

<sup>10</sup> OJ L 118, 12.5.2010, p. 1.

<sup>11</sup> OJ L .

laid down in the Interinstitutional Agreement of [...] 201x between the European Parliament, the Council and the Commission on cooperation in budgetary matters and sound financial management<sup>12</sup>.

- (13) Specific rules are also necessary for dealing with large-scale infrastructure projects whose lifetime extends well beyond the period set for the financial framework. It is necessary to establish maximum amounts for the contributions from the Union's budget to those projects. Those requests should not have any impact on other projects financed from the Union's budget.
- (14) The Commission should present a proposal for a new multiannual financial framework before 1 January 2018 to enable the institutions to adopt it sufficiently in advance before the start of the following financial framework. The financial framework laid down in this Regulation should continue to apply if the new financial framework regulation is not adopted before the end of the term of the financial framework laid down in this Regulation,

HAS ADOPTED THIS REGULATION:

### *Article 1*

#### *Multiannual Financial Framework*

The multiannual financial framework for the period 2014 to 2020 (hereinafter the financial framework) is set out in the Annex.

### *Article 2*

#### *Compliance with the ceilings of the financial framework*

1. The European Parliament, the Council and the Commission shall comply with the annual expenditure ceilings, set out in the financial framework, during each budgetary procedure and when implementing the budget for the year concerned.
2. The commitment appropriations may be entered in the budget over and above the ceilings of the relevant headings laid down in the financial framework where it is necessary to use the resources from the Emergency Aid Reserve, the European Union Solidarity Fund, the Flexibility Instrument, the European Globalisation Adjustment Fund, the Reserve for crises in the agriculture sector and the Contingency Margin in accordance with Council Regulation (EC) No 2012/2002<sup>13</sup>, Regulation (EC) No 1927/2006 of the European Parliament and of the Council<sup>14</sup>, Regulation No xxxx/201x of the European Parliament and the Council<sup>15</sup> and the Interinstitutional Agreement of [...] 201x on cooperation in budgetary matters and sound financial management (hereinafter the Interinstitutional Agreement).

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<sup>12</sup> OJ C ...

<sup>13</sup> OJ L 311, 14.11.2002, p. 3.

<sup>14</sup> OJ L 406, 30.12.2006, p. 1.

<sup>15</sup> OJ L , , p.

3. Where a guarantee for a loan covered by the Union's budget according to Regulation (EC) No 332/2002 or Regulation (EU) No 407/2010 needs to be mobilised, it shall be over and above the ceilings laid down in the financial framework.

### *Article 3*

#### *Respect of own resources ceiling*

1. 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 and revisions as well as the application of paragraphs 2 and 3 of Article 2, may not be such as to produce a call-in rate for own resources that exceeds the own resources ceiling set in accordance with [Decision XXXX/XX/EU, Euratom].
2. Where necessary, the ceilings set in the financial framework shall be lowered in order to ensure compliance with the own resources ceiling set in accordance with [Decision XXXX/XX/EU, Euratom].

### *Article 4*

#### *Technical adjustments*

1. Each year the Commission, acting ahead of the budgetary procedure for year n+1, shall 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 set in accordance with [Decision XXXX/XX/EU, Euratom];
  - (c) calculation of the absolute amount of the Contingency Margin provided for in Point 15 of the Interinstitutional Agreement.
2. The Commission shall make the technical adjustments referred to in paragraph 1 on the basis of a fixed deflator of 2% a year.
3. The Commission shall communicate the results of the technical adjustments referred to in paragraph 1 and the underlying economic forecasts to the European Parliament and the Council.
4. No further technical adjustments may be made in respect of the year concerned, either during the year or as ex-post corrections during subsequent years.

## Article 5

### *Adjustment of cohesion policy envelopes*

1. In its technical adjustment for the year 2018, if it is established that cumulated Gross Domestic Product ("GDP") of any Member State for the years 2014-2016 has diverged by more than +/- 5 % from the cumulated GDP estimated in 2011 for the establishment of cohesion policy envelopes for Member States for the period 2014-2020, the Commission shall adjust the amounts allocated from funds supporting cohesion to the Member State concerned for that period.
2. The total net effect, whether positive or negative, of the adjustments referred to in paragraph 1 may not exceed EUR 3 billion.
3. The required adjustments shall be spread in equal proportions over the years 2018-2020 and the corresponding ceilings of the financial framework shall be modified accordingly.

## Article 6

### *Adjustments related to implementation*

When notifying the European Parliament and the Council of the results of the technical adjustments to the financial framework, the Commission shall 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 decisions on those proposals shall be taken before 1 May of year n.

## Article 7

### *Adjustment of Structural Funds, Cohesion Fund, Rural Development Fund and the European Fund for Fisheries*

1. In the case of adoption after 1 January 2014 of new rules or programmes governing the Structural Funds, the Cohesion Fund, the Rural Development Fund and the European Fund for Fisheries, the financial framework shall be adjusted in order to transfer to subsequent years, in excess of the corresponding expenditure ceilings, of allocations not used in 2014.
2. The adjustment concerning the transfer of unused allocation for the year 2014 shall be adopted before 1 May 2015.

## Article 8

### *Adjustments related to excessive government deficit*

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, in accordance with the Treaty and in compliance with the relevant basic act, shall decide on a transfer of



suspended commitments to the following years. Suspended commitments of year n may not be re-budgeted beyond year n+2.

#### *Article 9*

##### *Revision of the financial framework*

1. In case of unforeseen circumstances the financial framework may be revised in compliance with the own resources ceiling set in accordance with [Decision XXXX/XX/EU, Euratom].
2. Any revision of the financial framework in accordance with paragraph 1 shall take into account 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. Where feasible, a significant amount, in absolute terms and as a percentage of the new expenditure planned, shall be within the existing ceiling for the heading.
3. Any revision of the financial framework in accordance with paragraph 1 shall take into account the scope for offsetting any raising of the ceiling for one heading by the lowering of the ceiling for another.
4. Any revision of the financial framework in accordance with paragraph 1 shall maintain an appropriate relationship between commitments and payments.
5. Adjustments referred to in Article 3(2), 6, 7, 8, 10, 11 and 16 also constitute a revision of the financial framework.

#### *Article 10*

##### *Adjustment of the financial framework in case of a revision of the Treaties*

Should a revision of the Treaties with budgetary implications occur during the financial framework, the necessary adjustments to the financial framework shall be made accordingly.

#### *Article 11*

##### *Adjustment of the financial framework in case of enlargement and unification of Cyprus*

If new Member States accede to the Union during the period covered by the financial framework, the financial framework shall be adjusted to take account of the expenditure requirements resulting from the outcome of the accession negotiations.

In case of unification of Cyprus during the period covered by the financial framework, the latter shall be adjusted to take account of the comprehensive settlement of the Cyprus problem and the additional financial needs resulting from unification.

## *Article 12*

### *Interinstitutional cooperation in the budgetary procedure*

The European Parliament, the Council and the Commission (hereinafter the institutions) shall take any measures to facilitate the annual budgetary procedure.

The institutions shall cooperate in good faith throughout the procedure with a view to reconciling their positions. The institutions shall cooperate through appropriate interinstitutional contacts to monitor the progress of the work and analyse the degree of convergence at all stages of the procedure.

The institutions shall ensure that their respective calendars of work are coordinated as far as possible in order to enable proceedings to be conducted in a coherent and convergent fashion, leading to the final adoption of the budget.

Trilogues may be held at all stages of the procedure and at different levels of representation, depending on the nature of the expected discussion. Each institution, in accordance with its own rules of procedure, shall designate its participants for each meeting, define its mandate for the negotiations and inform the other institutions of arrangements for the meetings in good time.

## *Article 13*

### *Financing of the Common foreign and security policy*

The total amount of operating Common foreign and security policy (hereinafter "CFSP") expenditure shall be entered entirely in one budget chapter, entitled CFSP. That amount shall cover the real predictable needs, assessed in the framework of the establishment of the draft budget, on the basis of forecasts drawn up annually by the High Representative of the Union for Foreign Affairs and Security Policy, and a reasonable margin for unforeseen actions. No funds may be entered in a reserve.

## *Article 14*

### *Contribution to the financing of large scale projects*

A maximum amount of EUR 7 000 million in 2011 prices shall be available for the European satellite navigation programmes (EGNOS and Galileo) from the EU budget for the period 2014-2020.

## *Article 15*

### *Mid-term assessment of implementation of the financial framework*

In 2016, the Commission shall present an assessment of the implementation of the financial framework accompanied, where necessary, by relevant proposals.

## *Article 16*

### *Transition towards the next financial framework*

Before 1 January 2018, the Commission shall present a proposal for a new multiannual financial framework.

If no Council regulation determining a new multiannual financial framework has been adopted before 31 December 2020, the ceilings and other provisions corresponding to the last year of the financial framework shall be extended until a regulation determining a new financial framework is adopted. If new Member States accede to the Union after 2020, the extended financial framework shall, if necessary, be adjusted in order to take into account the results of accession negotiations.

## *Article 17*

### *Entry into force*

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at ...,

*For the Council*  
*The President*

**ANNEX**

**Multiannual Financial Framework table**

*(EUR million - 2011 prices)*

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
<b>1. Smart and Inclusive Growth</b>	<b>64 696</b>	<b>66 580</b>	<b>68 133</b>	<b>69 956</b>	<b>71 596</b>	<b>73 768</b>	<b>76 179</b>	<b>490 908</b>
of which: Economic, social and territorial cohesion	50 468	51 543	52 542	53 609	54 798	55 955	57 105	376 020
<b>2. Sustainable Growth: Natural Resources</b>	<b>57 386</b>	<b>56 527</b>	<b>55 702</b>	<b>54 861</b>	<b>53 837</b>	<b>52 829</b>	<b>51 784</b>	<b>382 927</b>
of which: Market related expenditure and direct payments	42 244	41 623	41 029	40 420	39 618	38 831	38 060	281 825
<b>3. Security and citizenship</b>	<b>2 532</b>	<b>2 571</b>	<b>2 609</b>	<b>2 648</b>	<b>2 687</b>	<b>2 726</b>	<b>2 763</b>	<b>18 535</b>
<b>4. Global Europe</b>	<b>9 400</b>	<b>9 645</b>	<b>9 845</b>	<b>9 960</b>	<b>10 150</b>	<b>10 380</b>	<b>10 620</b>	<b>70 000</b>
<b>5. Administration</b>	<b>8 542</b>	<b>8 679</b>	<b>8 796</b>	<b>8 943</b>	<b>9 073</b>	<b>9 225</b>	<b>9 371</b>	<b>62 629</b>
of which: Administrative expenditure of the institutions	6 967	7 039	7 108	7 191	7 288	7 385	7 485	50 464
<b>TOTAL COMMITMENT APPROPRIATIONS</b>	<b>142 556</b>	<b>144 002</b>	<b>145 085</b>	<b>146 368</b>	<b>147 344</b>	<b>148 928</b>	<b>150 718</b>	<b>1 025 000</b>
as a percentage of GNI	1.08%	1.07%	1.06%	1.06%	1.05%	1.04%	1.03%	1.05%
<b>TOTAL PAYMENT APPROPRIATIONS</b>	<b>133 851</b>	<b>141 278</b>	<b>135 516</b>	<b>138 396</b>	<b>142 247</b>	<b>142 916</b>	<b>137 994</b>	<b>972 198</b>
as a percentage of GNI	1.01%	1.05%	0.99%	1.00%	1.01%	1.00%	0.94%	1.00%
Margin available	0.22%	0.18%	0.24%	0.23%	0.22%	0.23%	0.29%	0.23%
Own Resources Ceiling as a percentage of GNI	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%