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NOTE

from:	the Presidency
to:	COREPER/General Affairs Council
Subject:	Multiannual Financial Framework - Fiche on the technical clarifications brought in the Friends of the Presidency group

Following the activation of the Friends of the Presidency group (MFF), the group has undertaken an examination of the proposals presented by the Commission on 29 June 2011.

The group has so far concentrated on seeking technical clarifications on issues related to the duration of the MFF and its structure (4 July 2011), the macro-economic assumptions and the instruments outside the MFF (8 July 2011) and flexibility in the context of the MFF (15 July 2011).

The present fiche sets out the Presidency's summary of the main elements coming out of these analyses.

FICHE

Technical clarifications brought in the Friends of the Presidency group on duration, structure, macro-economic assumptions, and flexibility - state of play

Duration

1. The Commission proposed a seven year duration for the next multiannual financial framework (MFF). Such an approach was chosen following an analysis of different options. It will strengthen the link to the Europe 2020 targets on the one hand and takes account of positions expressed in the European Parliament and in the Council on the other.

Structure

2. The Commission proposed limited changes to the structure of the current MFF, aimed in particular at giving more emphasis to the priorities of the Europe 2020 Strategy. The main changes proposed relate to :

- the merger of the current sub-headings 1a and 1b into a single heading 1 ("Smart and Inclusive Growth");
- the creation of a sub-ceiling under the new heading 1 for economic, social and territorial cohesion;
- the merger of sub-headings 3a and 3b into a single heading 3 ("Security and Citizenship");
- the introduction of a new sub-ceiling in heading 5, dedicated to the administrative expenditure of the institutions.

3. The Commission's proposals foresee that cohesion policy is now treated as a sub-ceiling under Heading 1 rather than as a separate sub-heading[1]. The Commission explained that there will in any event be no unallocated margins under the cohesion sub-ceiling as the sum of the amounts to be included in the legislative acts for, respectively, the Connecting Europe Facility and for cohesion, will be exactly equal to the sub-ceiling (€376 bn); such a structure is proposed in order to maintain the flexibility which currently exists for trans-European network funding under the future instrument (the new Connecting Europe Facility).

4. There were several specific questions flowing from the fact that the Connecting Europe Facility will bring together traditional infrastructure funding and funding from the Cohesion Fund into a single facility placed under the cohesion sub-ceiling. In response, the Commission confirmed that the Facility will fund pre-identified transport, energy and ICT priority infrastructures of EU interest (a preliminary list of the proposed infrastructures - the "missing links" - accompanied the Commission proposals). It will be centrally managed and funded by a dedicated budget (amounting to 40 billion euro) and through ring-fenced amounts for transport in the Cohesion Fund (amounting to 10 billion euro). The Commission decided to include the allocation relating to the Connecting Europe Facility under the "economic, social and territorial cohesion" sub-ceiling in order to better reflect the similar goals of this Facility and of cohesion policy. The Facility will however be subject to a different legal basis.

[1] From a budgetary viewpoint, there is no difference between a heading and a sub-heading.

5. The proposal of putting some instruments outside the MFF has been analysed. The Commission explained that the European Development Fund would be kept outside the MFF due to the fact that the end of the next MFF will coincide with the expiry of the Cotonou agreement. ITER and GMES would be moved outside the MFF given the difficulty of funding large scale projects through the EU budget and their low predictability. The Commission underlined that there is a need to prevent situations in which overruns in costs of some large scale projects are financed at the detriment of other instruments. Two new instruments would be created outside the MFF, respectively to deal with agricultural crises and to channel contributions linked to international climate change and biodiversity related commitments. Furthermore it explained that the contribution keys for the respective instruments outside the MFF will eventually be subject to separate decisions.

6. In this context, further to questions on the treatment of GALILEO, the Commission clarified that it had to be kept inside the MFF as the EU is its owner, but that its funding would however be ring-fenced.

Macro-economic assumptions

7. The Commission presented the macroeconomic assumptions underlying the proposals for the MFF. The main conclusion, based on a strict methodology, is that GDP rates are expected to fall from an average of 2 1/4% (1998-2007) to 1 1/2% (2011-2020), with, however, significant differences across countries. In brief, the main features which according to the Commission will underlie the process are a relatively weak pre-crisis trends, the financial crisis and ageing populations.

8. The Commission insisted on the fact that the methodology that was used had been agreed with the Member States (within the relevant EPC working parties) or through extensive consultations. It also indicated that the "European Semester" policy surveillance cycle needed a realistic short, medium and long run growth baseline, producing an integrated set of figures for different processes (Annual Growth Survey; Stability and Convergence Programmes; National Reform Programmes; MFF; etc).

Flexibility

9. The Commission explained that it had included in its proposals some limited but targeted improvements to the existing flexibility provisions of the MFF. The aim is to ensure the necessary predictability and discipline in the EU budget whilst at the same time allowing for structural readjustment to new priorities and rapid response to emergencies. In proposing the flexibility in the context of the MFF, the Commission considered four major criteria: the overall size of the MFF, its duration, the internal structure of the MFF as well as the requirement of legal base, with a financial envelope as prime reference for the annual budgetary procedure.

10. No changes are proposed to the manner in which the MFF may be revised in order to respond to unforeseen circumstances with major financial impact. It is, however, proposed that the rules governing the mobilisation of the new contingency margin for unforeseen needs with limited financial impact reflect the fact that the limited margins proposed under the different ceilings will make it more difficult fully to compensate such additional needs. The main elements of this contingency margin are inspired by the ones emerging from the proposal for a Council regulation laying down the multiannual financial framework for the years 2007-2013: it should be constituted of up to 0,03% of the EU GNI, outside the ceilings of the MFF, and as a last-resort instrument to react to unforeseen circumstances. The Commission considered that, given the limited margins it proposed, there should be no requirement to fully compensate such limited revisions. The mobilisation of the contingency margin should be proposed by the Commission after a thorough analysis of all other possibilities, a reallocation by a significant amount should accompany the proposal as far as supported by the analysis. The decision to mobilise it will be taken by the budgetary authority with the Council acting by a qualified majority and the European Parliament by a majority of its component members and three fifths of the votes cast.

11. In addition, the Commission proposed to keep sufficient margins for all ceilings and to retain the commitment, in the draft Interinstitutional Agreement, whereby the institutions shall 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. At the same time, the Commission proposed some non-programmed envelopes for some programmes as well as a ring-fencing of amounts for large scale projects.

12. The Commission proposes to maintain the existing flexibility instruments outside the MFF, with only limited changes relating, in the light of experience, to their amounts, to the carry-over of unused monies and to their scope. In the case of the Flexibility Instrument, the Commission proposed an increased amount of 500 million euros per year as well as a carry-over of unused amounts to n+3 against n+2 in the current MFF. The Emergency Aid Reserve would be increased to 350 million euro with a possible carry-over of unused amounts to n+1 and its scope would be expanded to respond to pressure resulting from migratory flows at the Union's external borders. The Commission proposes to simplify the mobilisation of the Globalisation Adjustment Fund and to widen its eligibility to include farmers, whilst reducing its funding to 429 million euro. The Solidarity Fund's allocation is maintained at present levels and procedures for its mobilisation would be streamlined.

13. In addition, the Commission proposes a new reserve for crises in the agriculture sector, for which a specific legal act will be proposed. Its mobilisation would be similar to that of the Emergency Aid Reserve. It would amount to 500 million euro per year.

14. Finally, the Commission proposes to enhance flexibility over time, by increasing the possibility to differ from the indicative amounts contained in multiannual programmes from 5 to 10%, in order to be able to adjust the programming in the light of circumstances. For projects under the "Connecting Europe Facility", an automatic carry-over by one year of unused commitments is proposed, given the risk of delays inherent to such complex infrastructure projects.