



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

concerning the revision of the multiannual financial framework (2007-2013)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**amending the Interinstitutional Agreement of 17 May 2006 on budgetary discipline and
sound financial management as regards the multiannual financial framework**

(presented by the Commission)

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
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concerning the revision of the multiannual financial framework (2007-2013)

Financing of the European GNSS programmes (EGNOS-GALILEO)

Financing of the European Institute of Technology

This Communication contains the Commission's proposal for the revision of the multiannual financial framework (hereinafter referred to as "the financial framework") in accordance with Points 21 to 23 of the Interinstitutional Agreement (IIA) of 17 May 2006 on budgetary discipline and sound financial management.

Point 21 of the IIA provides that, in the event of unforeseen circumstances, the Commission may propose the revision of the financial framework in compliance with the own resources ceiling.

According to Point 22, any decision to revise the financial framework by up to 0.03% of the European Union GNI needs to be taken jointly by both arms of the budgetary authority in compliance with the voting rules laid down in the fifth subparagraph of Article 272(9) of the Treaty establishing the European Community. Any revision above 0.03% of the European Union GNI will be taken jointly by both arms of the budgetary authority, with the Council acting unanimously.

Point 23 of the IIA introduces a number of specific conditions the institutions need to respect:

- (1) 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.
- (2) The institutions will examine the scope for offsetting any raising of the ceiling for one heading by the lowering of the ceiling for another.
- (3) Any revision of the compulsory expenditure in the financial framework must not lead to a reduction in the amount available for non-compulsory expenditure¹.
- (4) Any revision must maintain an appropriate relationship between commitments and payments.

¹ Condition not applicable in the case of the present proposal.

1. ADDITIONAL FINANCING NEEDS DUE TO UNFORESEEN CIRCUMSTANCES

The Commission considers that new developments relating to the financing of the Galileo Programme, for an additional amount of EUR 2,400 million, and the financing of the European Institute of Technology, for an additional amount of EUR 309 million, justify the revision of the financial framework.

1.1. Developments in the Galileo programme

Further to the financial framework agreed between the institutions, an amount of EUR 1.005 billion at current prices has been programmed under heading 1A "Competitiveness for growth and employment" according to the Commission's proposal² for the financing of the deployment and operational phases of the Galileo programme during the period from 2007 to 2013.

That proposal was based on the initial road map, which foresaw three phases: development and in-orbit validation, deployment, and operations. The development phase was to be entirely financed by the public sector, whereas the deployment and operational phases were to be financed by both the public and the private sectors in the framework of a public-private-partnership (PPP) and implemented under a concession contract. The EU would contribute about one-third of the financing during the deployment phase and a financial contribution would be provided for the 3 first years of operational expenses. Taken together, it was estimated that the EU would contribute EUR 1.0 billion over the 2007-2013 period under the Community budget.

The concession call was launched on 17 October 2003 and resulted in a single negotiating partner, "Euro-GNSS", stemming from a merged consortium composed of 8 partners. The negotiations effectively started in January 2006, following internal industrial disagreement and a mediation with regard to the division of role and responsibilities (and locations of major ground installations of the system). However, the negotiations on the concession contract came to a stop at the beginning of 2007. The Council (Transport Ministers) which met on 22 March 2007 asked the Commission a detailed report setting out the progress made in the negotiations with the consortium and alternative scenarios for the rapid deployment of the space infrastructure, including financing aspects. The European Parliament called also on the Commission to come forward with appropriate proposals³.

In response to these requests, the Commission adopted on 16 May 2007 a Communication on the state of play of the Galileo programme, "*Galileo at a cross road: the implementation of the European GNSS programmes*", complemented by a Commission staff working document⁴. Under the scenario retained, the full operational capacity with 30 satellites shall be financed and procured by the public sector followed by a PPP under a concession scheme to run the operations and exploitation activities. The initial operational capacity shall be reached by end-2011 with 18 satellites and the full operational capacity shall be reached by end-2012 with 30

² COM(2004) 477 final/2, 24.5.2006 (Amended proposal for a Regulation of the European Parliament and of the Council on the implementation of the deployment and operational phases of the European satellite radio navigation programme).

³ European Parliament Resolution of 26 April 2007 on the Galileo concession contract negotiations (P6-TAPROV(2007)0164).

⁴ COM(2007) 261, 16.5.2007 and SEC(2007) 624, 16.5.2007.

satellites. The public procurement of the full infrastructure requires an investment for the period 2007-2013 amounting to EUR 3.4 billion. The PPP concession contract would cover the period 2010-2030.

Based on this Communication, the Council of Transport Ministers of 6-8 June 2007 concluded that the current concession negotiations had failed and had to be ended. It reaffirmed the value of Galileo as a key project of the European Union and supported, without prejudice to a final decision, the deployment of the Galileo system by the end of 2012. The Council recognised that the implementation of a deployment of the Galileo programme by the public sector would need additional public funding and requested the Commission to submit detailed alternative proposals for the financing, including all options of public funding, based on additional thorough assessments of costs, risks, revenues and timetables.

In parallel, the European Parliament adopted a resolution on 20 June 2007 recalling its strong support to continue the Galileo programme, but opposing any solution which would combine Community funding with intergovernmental additional funding. The resolution called for a full financing of the programme under the Community Budget and invited the Commission to take the initiative of proposing a revision of the financial framework as provided for in Point 22 of the IIA or by other means provided by the IIA⁵.

In its Communication on "Progressing Galileo: Re-Profiling the European GNSS Programmes"⁶, the Commission provided a detailed analysis of the various financing options, recommending that the financial framework be revised to fill the public financing gap.

Since an amount of EUR 1.0 billion has already been programmed under heading 1A of the financial framework, the financing of the full amount referred to above through the Community budget requires the mobilisation of additional EUR 2.4 billion under this heading with the following commitment profile:

Commitment Appropriations Galileo (EUR million, current prices)	2007	2008	2009	2010	2011	2012	2013	2007-2013
Currently programmed commitments	100	151	201	251	151	151	0	1 005
Additional commitments required	0	+ 789	+ 599	+ 739	+ 120	+ 96	+ 57	+ 2 400
Total commitments EC budget	100	940	800	990	271	247	57	3 405

⁵ European Parliament Resolution of 20 June 2007 on the financing of the European programme of satellite radionavigation (Galileo) under the Interinstitutional Agreement of 17 May 2006 and the multiannual framework 2007-2013 [P6_TA-PROV(2007)072 - PE 391.046/51].

⁶ COM(2007) 534, 19.9.2007.

1.2. Developments related to the European Institute of Technology (EIT)

The proposal to establish a European Institute of Technology was put forward in 2005 as part of the mid-term review of the Lisbon strategy. It has been further developed on the basis of a public consultation in which the most important university, research, business and industrial innovation organisations took part. The concept was presented in a first Commission Communication: "*Implementing the renewed partnership for growth and jobs - Developing a knowledge flagship: the European Institute of Technology*"⁷. In June 2006, the Commission further elaborated the concept in a second communication: "*The European Institute of Technology: further steps towards its creation*"⁸, which drew extensively on the outcome of the consultation process and shed light on a number of specific issues related to the proposed structure and operation of the EIT.

The European Council of 15-16 June 2006 reaffirmed that "the European Institute for Technology (EIT), working with existing national institutions, will be an important step towards filling the existing gap between higher education, research and innovation together with other actions that enhance networking and synergies between excellent research and innovation communities in Europe." It invited the Commission to prepare a formal proposal for the establishment of the EIT. This proposal was adopted by the Commission on 18 October 2006⁹. It foresees an amount of EUR 308.7 million for the period 2008-2013 for the financing of the EIT under heading 1A. This amount will cover the costs of the EIT's governing structure and the European dimension of the project, notably the costs of coordination and mobility that are necessary to sustain the "Knowledge and Innovation Communities" (KICs). This amount will represent only a percentage of the total EIT budget, as both the EIT and the KICs are expected to attract other sources of financing, including from the private sector.

No specific provision was made for the EIT in the course of the negotiations on the financial framework 2007-2013. The Commission considered that the unallocated margins beneath the ceilings of heading 1A could be sufficient to finance the launching of the EIT. Thus, the proposed amount of EUR 308.7 million was included in the financial programming of heading 1A¹⁰, leaving a margin of EUR 788.2 million over the 2008-2013 period. However, no agreement was reached by Council and the European Parliament, neither on the proposed source of financing nor on alternative financing solutions discussed at various Trilogue meetings. The Commission thus sees no alternative to proposing to cover the financing needs for the EIT through an increase of the ceiling of heading 1A by means of a revision of the financial framework.

⁷ COM(2006) 77, 22.2.2006.

⁸ COM(2006) 276, 8.6.2006.

⁹ COM(2006) 604, 18.10.2006.

¹⁰ SEC(2007) 500, May 2007 – Document V of the Preliminary Draft Budget 2008 – Financial programming 2008-2013.

The profile of the additional commitments appropriations required for the EIT, based on the amended financial statement¹¹, is as follows:

<i>Commitment Appropriations (EUR million, current prices)</i>	2007	2008	2009	2010	2011	2012	2013	2007-2013
- additional commitments EIT funding	0	+ 3	+ 6	+ 30	+ 63	+ 80	+ 127	+ 309

2. SCOPE FOR REALLOCATING EXPENDITURE UNDER THE CEILING OF HEADING 1A

In accordance with Point 23 of the IIA, the Commission has analysed the possibilities to mobilise the additional financing needs of EUR 2,400 million for Galileo and EUR 309 million for the EIT (that is EUR 2,709 million in total) under the current ceiling of heading 1A. It appears that the programmes have all been adopted with their respective envelopes without possibility at this stage to redeploy or re-profile significantly the envelopes within the annual ceilings. As regards possible under-utilisation with respect to appropriations, it is unrealistic to make any assumptions at this very early stage of the programming period. However, the Commission proposes that EUR 300 million be made available within the transport related research activities financed under the 7th Research Framework Programme¹².

Point 13 of the IIA provides that the institutions are required to ensure that "sufficient margins" are left available beneath the ceilings. According to the latest financial programming¹³, and excluding the EIT financing, the margin amounts to a total of EUR 1,097 million for the years 2008-2013, with most of it available towards the end of the period whereas Galileo requires most of the additional funding at the beginning of the period. The Commission concludes, with a view to Point 13 of the IIA, that the margins of heading 1A cannot be used to cover the additional financing needs of the Galileo programme and the EIT.

3. SCOPE FOR OFFSETTING THE RAISING OF ONE CEILING BY LOWERING ANOTHER CEILING

After deduction of the EUR 300 million for Galileo activities to be financed from the 7th Research Framework Programme, a financing gap of EUR 2,409 million needs to be filled. This amount can be provided by using the margins of heading 2 "Preservation and Management of Natural Resources" and heading 5 "Administration" available in 2007 and 2008.

The current 2007 Budget and the Preliminary Draft Budget (PDB) for 2008 result in substantial margins being available under heading 2, respectively EUR 2.1 billion in 2007 and EUR 2.5 billion in 2008. These margins are almost entirely the result of the foreseeable execution within the sub-ceiling "Market related expenditure and direct payments" (EAGF).

¹¹ SEC(2007) 1220.

¹² Title 06 of the budget.

¹³ SEC(2007) 500, May 2007 – Document V of the Preliminary Draft Budget 2008 – Financial programming 2008-2013.

Up-to-date information on budget execution confirms the availability of a margin of EUR 2,100 million under heading 2 in 2007. Therefore it is considered that this ceiling can be lowered by an amount of EUR 1,689 million.

With regard to the PDB 2008, the combined effect of favourable market conditions in the agricultural sector and assigned revenue carried over from 2007 to 2008 leads to an increase of the global margin under heading 2 compared to the budget 2007. Overall, for heading 2, a margin of EUR 2,500 million is foreseen for 2008. At this stage, the letter of amendment, which updates the figures of the draft budget 2008, is not expected to reduce this margin. The Commission considers thus that lowering the annual ceiling for heading 2 by EUR 500 million will leave a sufficient margin for 2008.

Consequently, the Commission proposes to decrease the annual ceilings for commitment appropriations under heading 2 by EUR 1,689 million for 2007 and by EUR 500 million for 2008.

In addition, the Commission proposes to decrease the ceilings of Heading 5 "Administration" by EUR 120 million in 2007 and by EUR 100 million in 2008, which to-date leaves a margin of EUR 16 million in 2007 and of EUR 70 million in 2008.

The Commission thus proposes to increase the annual ceilings of heading 1 A for the years 2008 to 2013 by a total amount of EUR 2,409 million to be offset by a decrease of the ceilings of headings 2 and 5 for the years 2007 and 2008.

4. MAINTAINING AN APPROPRIATE RELATIONSHIP BETWEEN COMMITMENTS AND PAYMENTS

Point 23 of the IIA also requires that any revision must maintain an appropriate relationship between commitments and payments.

Under the 2007 Budget and the 2008 PDB, the margins under the annual ceilings for payment appropriations amount to EUR 8,293 million and EUR 8,215 million respectively¹⁴. Consequently, the Commission proposes to offset the increase in payment appropriations required for the financing of both programmes by a decrease of payment appropriations in 2007 and 2008. Based on the payment profiles foreseen for Galileo and the EIT in the respective (amended) financial statements, this approach results in the following modification of the annual ceilings for payment appropriations:

Total payment appropriations (EUR million, current prices)	2007	2008	2009	2010	2011	2012	2013	2007-2013
- current IIA ceiling	123 790	129 481	123 646	133 202	133 087	139 908	142 180	925 294
- required modification	- 1 809	- 391	+ 329	+ 471	+ 568	+ 454	+ 354	- 24

Overall, this modification is neutral in budgetary terms, taking into consideration additional payments of EUR 24 million arising after 2013 under the payment profile of the EIT.

¹⁴ The margin for the payments does not take into account the appropriations related to the Emergency Aid Reserve (EUR 239.2 million) and to the staff contributions to the pension scheme (EUR 77 million).

5. OVERVIEW OF THE PROPOSED REVISION OF THE FINANCIAL FRAMEWORK

The table below summarises the proposed changes to the ceilings in the financial framework. These amounts are expressed in current prices.

Commitment appropriations (EUR million)	2007	2008	2009	2010	2011	2012	2013	total
Heading 1A - Competitiveness for Growth and Employment	-	+ 742	+ 555	+ 719	+ 133	+ 126	+ 134	+2 409
Financing of the EIT	-	+ 3	+ 6	+ 30	+ 63	+ 80	+ 127	+ 309
Financing of the Galileo programme *		+ 739	+ 549	+ 689	+ 70	+ 46	+ 7	+2100
Heading 2 - Preservation and Management of Natural Resources	- 1 689	- 500	-	-	-	-	-	- 2 189
Heading 5 - Administration	-120	-100	-	-	-	-	-	- 220
Total change in commitment appropriations	- 1 809	+ 142	+ 555	+ 719	+ 133	+ 126	+ 134	0
Total change in payment appropriations	- 1 809	- 391	+ 329	+ 471	+ 568	+ 454	+ 354	- 24

* in addition € 300m available within the 7 th Research Framework Programme		50	50	50	50	50	50	300
Total reinforcement for Galileo		789	599	739	120	96	57	2400

These changes result in the below financial framework table applicable to 2008, incorporating the technical adjustment already made for 2008¹⁵.

The formal decision on the revision of the financial framework must refer to the basic table agreed in the IIA, which is expressed in constant 2004 prices. The amounts in current values are thus to be converted into 2004 prices by means of a fixed deflator of 2% a year, in accordance with Point 16 of the IIA.

¹⁵ Commission Communication on the technical adjustment of the financial framework for 2008 in line with movements in GNI - COM(2007) 208, 24.4.2007.

FINANCIAL FRAMEWORK 2007-2013 (revised)

(EUR million – current prices)

COMMITMENT APPROPRIATIONS	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	54 405	57 478	59 752	61 863	63 734	66 766	69 812	433 810
1a Competitiveness for Growth and Employment	8 918	10 589	11 324	12 469	13 107	14 365	15 624	86 396
1b Cohesion for Growth and Employment	45 487	46 889	48 428	49 394	50 627	52 401	54 188	347 414
2. Preservation and Management of Natural Resources	56 662	58 300	59 252	59 726	60 191	60 663	61 142	415 936
of which: market related expenditure and direct payments	45 759	46 217	46 679	47 146	47 617	48 093	48 574	330 085
3. Citizenship, freedom, security and justice	1 273	1 362	1 523	1 693	1 889	2 105	2 376	12 221
3a Freedom, Security and Justice	637	747	872	1 025	1 206	1 406	1 661	7 554
3b Citizenship	636	615	651	668	683	699	715	4 667
4. EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595	55 935
5. Administration ⁽¹⁾	6 919	7 280	7 699	8 008	8 334	8 670	9 095	56 005
6. Compensations	445	207	210					862
TOTAL COMMITMENT APPROPRIATIONS	126 282	131 629	135 876	139 183	142 578	147 201	152 020	974 769
as a percentage of GNI	1.06%	1.06%	1.05%	1.03%	1.01%	1.00%	1.00%	1.03%
TOTAL PAYMENT APPROPRIATIONS	121 981	129 090	123 975	133 673	133 655	140 362	142 534	925 270
as a percentage of GNI	1.02%	1.04%	0.95%	0.99%	0.95%	0.96%	0.94%	0.98%
Margin available	0.22%	0.20%	0.29%	0.25%	0.29%	0.28%	0.30%	0.26%
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.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending the Interinstitutional Agreement of 17 May 2006 on budgetary discipline and sound financial management as regards the multiannual financial framework

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Interinstitutional Agreement of 17 May 2006 on budgetary discipline and sound financial management¹⁶, and in particular to Points 21, 22 and 23 thereof,

Having regard to the proposal from the Commission¹⁷,

Whereas:

- (1) In 2004, the Commission submitted a proposal for a Regulation on the implementation of the deployment and commercial operating phases of the European programme of satellite radionavigation¹⁸ (Galileo).
- (2) The proposed Regulation foresaw an amount of EUR 1.005 billion at current prices¹⁹ provided from the Community budget to finance the deployment and operational phases of Galileo during the period from 2007 to 2013, whereas the remaining funding required was to be provided by the private sector under a concession contract.
- (3) The negotiations for the concession contract have failed to transfer at a reasonable cost the financing part of the Galileo programme to be assumed by the private sector²⁰.
- (4) Both the European Parliament and the Council have reaffirmed the value of Galileo as a key project of the European Union and recognised the need for additional public funding²¹.

¹⁶ OJ C 139, 14.6.2006, p. 1.

¹⁷ COM(2007) 549, 19.9.2007.

¹⁸ COM(2004) 477 final/2.

¹⁹ EUR 900 million at 2004 prices.

²⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social committee and the Committee of the Regions, "Galileo at a Cross-Road: The Implementation of the European GNSS Programmes" - COM(2007) 261, 16.5.2007 - and Council resolution on Galileo adopted on the 2805th Transport, Telecommunications and Energy Council meeting, Luxembourg, 6-8 June 2007.

²¹ European Parliament resolution of 20 June 2007 on the financing of the European programme of satellite radionavigation (Galileo) under the Interinstitutional Agreement of 17 May 2006 and the multiannual financial framework 2007-2013 [PE 391.046, p. 51 – P6_TA-PROV(2007)0272] and above mentioned Council Resolution on Galileo.

- (5) On 19 September 2007, the Commission has adopted a Communication to the European Parliament and the Council on "Progressing Galileo: Re-Profiling the European GNSS Programmes"²² and an amended proposal for a Regulation of the European Parliament and the Council on the continuation of the implementation of the European programmes of satellite radionavigation (EGNOS and Galileo)²³.
- (6) The additional public funding required for the deployment of full operational capacity financed and procured by the public sector amounts to EUR 2 400 million in current prices.
- (7) The Commission has presented a proposal for a Regulation establishing the European Institute of Technology (EIT)²⁴ with a specific Community budget contribution of EUR 308.7 million in current prices for the financing of the governing structure of the EIT and of coordination activities of the "Knowledge and Innovation Communities". The financing of the EIT was not foreseen when the negotiations on the current financial framework were concluded.
- (8) EUR 300 million can be made available within the transport related research activities financed under the Seventh Research Framework Programme²⁵. The remaining additional financing requirement for Galileo and the European Institute of Technology amounts to EUR 2 409 million, which requires raising the annual ceilings of heading 1A for the years 2008 to 2013.
- (9) The required increase of the global ceiling of heading 1A can be offset by a decrease of the ceilings for heading 2 "Preservation and Management of Natural Resources" and heading 5 "Administration" for the years 2007 and 2008.
- (10) Similarly, in order to keep an appropriate relationship between commitments and payments, the annual ceilings for payment appropriations should be adjusted taking into account the margins available in 2007 and 2008.
- (11) Annex I of the Interinstitutional Agreement on budgetary discipline and sound financial management should therefore be amended accordingly,

HAVE DECIDED AS FOLLOWS:

Sole Article

Annex I to the Interinstitutional Agreement on budgetary discipline and sound financial management is replaced by the Annex to this Decision.

²² COM(2007) 534, 19.9.2007.

²³ COM(2007) 535, 19.9.2007.

²⁴ COM(2006) 604 final/2.

²⁵ Title 06 budget.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

ANNEX

FINANCIAL FRAMEWORK 2007-2013 (revised)

(EUR million - 2004 prices)

COMMITMENT APPROPRIATIONS	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	51 267	53 101	54 118	54 932	55 483	56 983	58 415	384 299
1a Competitiveness for Growth and Employment	8 404	9 783	10 256	11 072	11 410	12 260	13 073	76 258
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 Resources	53 394	53 860	53 666	53 035	52 400	51 775	51 161	369 291
of which: market related expenditure and direct payments	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⁾	6 520	6 726	6 973	7 111	7 255	7 400	7 610	49 800
6. Compensations	419	191	190					800
TOTAL COMMITMENT APPROPRIATIONS	118 998	121 605	123 066	123 590	124 122	125 634	127 203	864 218
as a percentage of GNI	1.10%	1.08%	1.07%	1.04%	1.03%	1.02%	1.01%	1.048%
TOTAL PAYMENT APPROPRIATIONS	114 945	119 259	112 288	118 698	116 355	119 798	119 266	820 609
as a percentage of GNI	1.06%	1.06%	0.97%	1.00%	0.97%	0.97%	0.95%	1.00%
Margin available	0.18%	0.18%	0.27%	0.24%	0.27%	0.27%	0.29%	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.