



COMMISSION OF THE EUROPEAN COMMUNITIES

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**PRELIMINARY DRAFT AMENDING BUDGET N° 7
TO THE GENERAL BUDGET 2007**

GENERAL STATEMENT OF REVENUE

**STATEMENT OF REVENUE AND EXPENDITURE BY SECTION
Section III - Commission**

(presented by the Commission)

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Having regard to:

- the Treaty establishing the European Community, and in particular Article 272 thereof,
- the Treaty establishing the European Atomic Energy Community, and in particular Article 177 thereof,
- Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities¹, as last amended by Council Regulation (EC, Euratom) No 1995/2006², and in particular Article 37 thereof,

The European Commission hereby presents to the budgetary authority Preliminary Draft Amending Budget No 7 to the 2007 budget for the reasons set out in the following explanatory memorandum.

¹ OJ L 248, 16.9.2002, p. 1.

² OJ L 390, 30.12.2006, p. 1.

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GENERAL STATEMENT OF REVENUE

STATEMENT OF REVENUE AND EXPENDITURE BY SECTION

The general statement of revenue and the statement of revenue and expenditure by section are forwarded separately via the SEI-BUD system. An English version of the general statement of revenue and statement of revenue and expenditure by section is attached for information as a budgetary annex.

1. INTRODUCTION

Preliminary Draft Amending Budget (PDAB) No 7 for the year 2007 takes into account of the following developments:

- the need to budget a substantial increase in the forecast of revenue, in particular for the revision of the forecasts of VAT and GNI balances (EUR 3 233,4 million)³;
- the need for a decrease of payment appropriations in budget lines for headings 1a, 1b, 2 and 3a (EUR 1 251,4 million), after taking into account the redeployments proposed in the global transfer.

2. INCREASE IN THE FORECAST OF REVENUE

2.1. Revision of the forecasts of VAT and GNI balances

In accordance with Article 16 of Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000, the Commission proposes to revise the forecasts of VAT and GNI own resources balances, on the basis of the available information, by an increase of EUR 2 814,9 million. These modifications concern chapters 3 1 and 3 2 of the revenue side of the budget.

At this stage the calculations for Member States' GNI are still provisional, because of the on-going verification of GNI data. After the GNI Committee of 25 October, the Commission will revise the above figure accordingly, in the course of the budgetary procedure for this PDAB.

2.2. Other revenue

Repayment of unused Community aid (item 6 1 5 0) and financial corrections in connection with the Structural funds (item 6 5 0 0)

Taking into account the cashed amounts for items 6 1 5 0 and 6 5 0 0, and assuming that these amounts will not be re-used this year, an amount of EUR 179,5 million is proposed to be budgeted.

Interest on late payments and fines

Chapters 7 0 and 7 1 of the general statement of revenue register interest on late payments and fines. Budget 2007 already includes an amount of EUR 123 million. Considering the amounts that at this stage of the year are cashed or will probably be cashed, it is proposed to enter an additional amount of EUR 239 million in the budget.

3. DECREASE IN PAYMENT APPROPRIATIONS

The Commission proposes to adjust the level of payment appropriations for certain budget lines in order to align them more closely to the latest estimates of needs and working on the

³ The use of updated forecasts on the revenue side improves the accuracy of the payments Member States are asked to make during the budgetary year. According to this proposed revision Member States will reduce their contributions based on GNI.

assumption that the rebalancing of payment appropriations between budget lines requested separately by the Commission's in the so-called 'Global Transfer' will be accepted by the Budget Authority. The reduction (EUR 1 251,4 million) in the level of payment appropriations requested in this PDAB takes account in particular of the following factors:

- The fine-tuning of Cohesion expenditure, to reflect the state of play in the programming phase;
- The winding-up of payments stemming from the previous financial frameworks;
- The late adoption of some legal bases, and the resulting delays in starting up new programmes; and
- The need to take account of the state of implementation of certain pilot projects and preparatory actions.

The present proposal concerns headings 1a, 1b, 2 and 3a of the financial framework.

3.1. Heading 1a Competitiveness for Growth and Employment

The proposed reduction of payment appropriations for heading 1a is EUR 466,5 million. In this explanatory text, the figures have been rounded to the nearest million.

Research Framework Programmes (- EUR 239 million)

FP-5 (EC) (- EUR 60 million): All the payments now made in relation to the Fifth Framework Programme are final payments. The amount proposed for withdrawal relates essentially to the "Quality of Life", "Competitiveness and Sustainable Growth" and "Human Potential" priorities. Several factors explain the reduction in the payment appropriations required:

- The real costs of projects are significantly lower than the amounts initially foreseen, which reduces the Community contribution and generates significant de-commitments at the end of the Framework Programme.
- Certain types of project have frequently been terminated earlier than anticipated (early termination of research grants).
- Final reports are often submitted late by beneficiaries. Furthermore, there is generally a lack of completeness of the information submitted with the final reports, which means additional information has to be requested. These two factors together cause delays in the execution of final payments.

FP-6 (EC) (- EUR 149 million): The Sixth Framework Programme is in its first completion year. The amount proposed for reduction relates essentially to the "Human Resources", "SME", "Environment" and "Infrastructure" activities. The main reasons for under-implementation of appropriations are as follows: cancellation of contracts prior to the start of projects; early termination of projects; delays in the start date of projects; delays in the receipt of reports; lower than anticipated project costs.

FP-6 (Euratom) (- EUR 30 million): Due to the rather late decisions on the ITER Joint Undertaking, and the implementation of the agreement, the relevant commitment was made

with a year's delay. The agreement allows for a payment to be made in the year following the commitment. This means that the related payment, due to be made in 2007, will also be made with a year's delay, in 2008.

Competitiveness and Innovation (- EUR 46 million)

CIP in Policy Area Enterprise (- EUR 30 million): The reduction in the amount of payment appropriations that can be consumed on this line is linked to the delays in market procedures inherent in the setting up of this new programme for the period 2007-2013. These delays mean that the relevant funds will only be committed at the end of the year, and hence the corresponding advance payments will not be made.

CIP in Policy Area Information Society (- EUR 10 million): An under-implementation of EUR 10 million is foreseen on this line. This surplus of appropriations relates to the late adoption of the Legal Basis (24 October 2006 - Publication Official Journal: 9 November 2006) and to the fact that CIP is a new programme with new objectives to be defined and put in place. Therefore, several meetings of the Management Committee were needed and the first Work Programme was only adopted on 24 May 2007. The call for proposals was published on 25 May and the closure is scheduled for 23 October. The signature of the grant agreements will begin in early 2008. No payments on projects are expected in 2007 and the pre-financing of some studies has also been delayed. An amount of EUR 1 million is expected to be paid in 2007.

CIP in Policy Area Transport and Energy (- EUR 6 million): 2007 is the first year of the programme "Intelligent Energy - Europe II", and the end of negotiations, which will result in the signature of contracts, will not happen until 2008. This means that no pre-financing payments can be made in 2007, and most of the appropriations available on this line will not be used.

Energy and Transport (- EUR 168 million)

Galileo (- EUR 100 million): Faced with difficulties surrounding the Galileo programme, on 19 September 2007 the Commission presented a Communication and a proposal modifying the Regulation on the establishment of the Galileo and EGNOS (European Geostationary Navigation Overlay Service) programmes. Given this context, the payment appropriations foreseen for this year will not be used.

Nuclear decommissioning (- EUR 45 million): The reduction follows from a reinforcement of EUR 66,5 million at the end of 2006, which allowed for the settlement of a number of payment requests from the European Bank for Reconstruction and Development (EBRD), submitted earlier than expected ("front-loading").

Intelligent Energy I (- EUR 19 million): In addition to the uncertainty related to the timing of invoices to be submitted, the strict enforcement of bank guarantees, which some contractors have difficulty complying with, has also slowed down the payment flow. Furthermore, it is difficult to foresee the rate at which the outstanding commitments will be absorbed, since the analysis of the first intermediary payment requests is taking longer than had been anticipated.

Marco Polo (- EUR 4 million): 2007 is the first year of the "Marco Polo II" programme, and the end of negotiations, which should result in the signature of contracts, will not be possible until 2008. Hence, no pre-financing payment will be made in 2007.

Pilot Projects and Preparatory Actions (- EUR 12 million)

Support for SMEs in the new financial environment (- EUR 5 million): The reduction in the amount of payment appropriations that can be consumed on this line is linked to the implementation rhythm of this preparatory action. The international financial institutions involved in the action have had difficulty in finding participating banks, at the regional and local level, that are of sufficient size and capacity to be able to implement this action.

Erasmus for Young Entrepreneurs (- EUR 1 million): A feasibility study is needed to implement this pilot project. To undertake this, an amount of EUR 1,5 million is required, which leaves the balance available for withdrawal.

Measures to promote cooperation and partnerships between micro, small and medium-sized enterprises (- EUR 2 million): The contracts implementing this pilot project will be signed towards the end of the year, once the relevant market procedures have been concluded. Hence the first payments will be made at the start of 2008, leaving the full amount of payment appropriations available.

The EU assuming its role in a globalised world (- EUR 2 million): The contracts implementing this pilot project will be signed towards the end of the year, once the relevant market procedures have been concluded. One pre-financing payment of EUR 1 million can be made in 2007, leaving the balance of payment appropriations available.

Energy Security – Bio fuels (- EUR 2 million): The forecast of consumption of payment appropriations on this budget line shows a likely under-implementation of the full amount of available funds. This is the first year of this pilot project, and the end of the negotiations, which should result in the signature of contracts, will probably not happen until the end of 2007 or the beginning of 2008. Hence no pre-financing payment will be made in 2007.

3.2. Heading 1b Cohesion for Growth and Employment

Structural and Cohesion Funds (- EUR 573 million)

In this Preliminary Draft Amending Budget a reduction of EUR 573 million in payment appropriations for heading 1b is also proposed. The reasons are set out below.

2007 is the first year of the new 2007-2013 programming period, when all new operational programmes are scheduled for adoption, followed by the first advance payments. Currently, the Commission estimates that in 2007 it may not be possible to pay EUR 1 billion, out of the total budget of EUR 7 billion for advances to the new Cohesion policy 2007-2013 programmes, due to delays in the adoption of some programmes.

In contrast, payments for the pre-2007 Structural Funds programmes have so far exceeded expectations. Assuming steady payment claims continue for the rest of the year, they are likely to absorb part of the surplus of payment appropriations that had been foreseen for advances for the 2007-2013 programmes.

Nevertheless, two budget lines require downward adjustments, albeit of limited magnitude. These are the ERDF lines for the Completion of Objective 2 programmes and the Completion of Technical Assistance and Innovative Measures (EUR 30 million each). For the former, the downward adjustment is required because of suspension of payments to some UK mainstream and URBAN programmes (some of which have not yet been lifted), while the latter is due to longer than expected closures of Innovative Action Programmes.

There are also significant delays in adopting the new Cross-Border programmes under the European Neighbourhood and Partnership Instrument, co-funded by the European Regional Development Fund (ERDF). None of these programmes is expected to be adopted in 2007 due to delays in the preparation of the joint programmes by the Member States and ENPI participant countries. As a result, none of the amounts budgeted for advances (EUR 13 million) funded by the ERDF can be used.

The final component concerns payments for pre-2007 projects of the Cohesion Fund. Despite Portugal and Poland exceeding forecast payment claims, in general payments have trailed expectations in the other Member States, with claims from Bulgaria, Spain, the Czech Republic and Slovenia being especially low. Consequently, overall payments are forecast to be some EUR 500 million lower than forecast.

Taking into account the above, the Commission proposes to reduce payment appropriations for the following lines of heading 1b:

Budget Line	Name	Change (EUR)
13 04 01	Cohesion Fund - Completion of previous projects (prior to 2007)	-500 000 000
13 03 04	Completion of ERDF, Objective 2 (2000 to 2006)	-30 000 000
13 03 08	Completion of ERDF - Technical assistance and innovative measures (2000 to 2006)	-30 000 000
19 08 02 02	Cross Border Cooperation (CBC), contribution from Heading 1b (Regional Policy)	-12 753 208
Total Heading 1b		-572 753 208

The Commission's proposal reflects the most recent information available and the best estimates at the time of proposing the PDAB. Nevertheless, the Commission intends to continue its close monitoring of execution and make a final assessment of the progress in adopting new 2007-2013 programmes and related payment of advances, and of the payment claims received from all Member States for the pre-2007 programmes and projects, by the end of October (1 November for the Cohesion Fund), which is the regulatory deadline for the introduction of payment claims for this year. This may lead the Commission to revise its request in the course of the procedure concerning this PDAB. This is the only approach capable of addressing simultaneously two key, albeit conflicting, concerns: firstly, to ensure the budget is sufficient to satisfy all eligible payment claims received and advances to be made; secondly, to avoid surpluses at the end of the year, as far this is possible. Therefore, the Commission, if appropriate, will provide an update of the current estimates, with a view to a possible revision in early November of the amendments proposed here.

3.3. Heading 2 Preservation and Management of Natural Resources

European Fisheries Fund (- EUR 19 million)

Almost half of the twenty-six new 2007-2013 programmes of the European Fisheries Fund have yet to be received by the Commission. The respective advances will not be paid in 2007. Consequently, the Commission proposes a reduction of payment appropriations for budget line 11 06 12 of EUR 19,4 million.

For reasons similar to the ones mentioned for the amendments proposed in this PDAB for the Structural and the Cohesion funds, the Commission may revise its request in the course of the procedure concerning this PDAB.

Environment (- EUR 88 million)

The Regulation on the LIFE+ programme was adopted on 23 May 2007. Despite the late adoption of the legal basis, the Commission is striving to achieve a good level of implementation in 2007. The call for proposals, covering EUR 187 million, was published on 28 September 2007. The projects will therefore be selected in 2008 and no payment appropriations will be needed in 2007 for this part of the programme. The payment appropriations to be used in 2007 relate to measures undertaken by the Commission in support of the Commission's role in initiation of environmental policy development and implementation (studies and evaluations, services with a view to the implementation and integration of environmental policy and legislation, meetings, seminars and workshops with experts and stakeholders), information, publication and dissemination activities and operating grants to NGOs.

3.4. Heading 3a Freedom, Security and Justice

Freedom, Security and Justice (- EUR104 million)

External Border Fund (- EUR 60 million) and Integration of Third-country Nationals (- EUR 32 million): Following the late adoption of the legal basis, the strategic guidelines were adopted this summer. The implementing rules will only be adopted in autumn 2007, as there are significant translation requirements. The distribution of funds between Member States has been determined. On this basis, the financing decisions for the External Borders Fund will be taken by the end of 2007. The adoption of the work programmes for the Community actions for this fund is foreseen for the autumn, following which both the global commitments and the calls for proposal will be finalised. Given the delayed adoption of the legal bases and the required preparatory actions, the 2007 annual programme for the Member States will only be adopted in the first semester of 2008. This also goes for the contracting of the grant agreements for the Community actions. Due to these delays, practically no payments will be made in 2007.

Daphne (- EUR 7 million): The new programme will be committed at the end of the year 2007 due to the late adoption of the legal basis (end of June 2007 instead of end of the year 2006 as originally foreseen) and the procedure for the approval of the financing decision. For these reasons, the pre-financing payments will be made in 2008 and the Commission will not be able to use any payment appropriations in 2007.

Fundamental rights and citizenship (- EUR 5 million): The new programme will be committed at the end of the year 2007 due to the late adoption of the legal basis (April 2007 instead of end of the year 2006 as originally foreseen) and the procedure for the approval of the financing decision. For these reasons, only pre-financing payments for an amount of EUR 763 000 will be made in 2007. The balance of appropriations will thus remain unused.

SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2007 Financial framework		Budget 2007 + AB 1-5/2007 +PDAB 6/2007		PDAB 7/2007		Budget 2007 + AB 1-5/2007 + PDAB 6 + 7/2007	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH								
1a. Competitiveness for growth and employment	8 918 000 000		9 367 547 511	7 011 294 397		-466 493 000	9 367 547 511	6 544 801 397
1b. Cohesion for growth and employment	45 487 000 000		45 486 784 504	37 618 069 823		-572 753 208	45 486 784 504	37 045 316 615
Total Margin⁴	54 405 000 000		54 854 332 015 50 667 985	44 629 364 220		-1 039 246 208	54 854 332 015 50 667 985	43 590 118 012
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	45 759 000 000		42 711 661 000	42 435 641 756			42 711 661 000	42 435 641 756
Total Margin	58 351 000 000		56 250 230 036 2 100 769 964	54 718 545 736		-108 120 000	56 250 230 036 2 100 769 964	54 610 425 736
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	637 000 000		623 833 000	473 908 000		-104 037 000	623 833 000	369 871 000
3b. Citizenship	636 000 000		819 799 099	900 243 751			819 799 099	900 243 751
Total Margin⁵	1 273 000 000		1 443 632 099 25 934 000	1 374 151 751		-104 037 000	1 443 632 099 25 934 000	1 270 114 751
4. EU AS A GLOBAL PARTNER⁶	6 578 000 000		6 812 460 000 67 000	7 352 746 732			6 812 460 000 67 000	7 352 746 732
5. ADMINISTRATION⁷	7 039 000 000		6 977 864 032 137 135 968	6 977 764 032			6 977 864 032 137 135 968	6 977 764 032
6. COMPENSATION	445 000 000		444 646 152 353 848	444 646 152			444 646 152 353 848	444 646 152
TOTAL Margin	128 091 000 000	123 790 000 000	126 783 164 334 2 314 928 765	115 497 218 623 8 368 781 377		-1 251 403 208	126 783 164 334 2 314 928 765	114 245 815 415 9 620 184 585

⁴ The European Globalisation adjustment Fund (EGF) is not included in the calculation of the margin under Heading 1a.

⁵ The European Union Solidarity Fund (EUSF) amount is entered over and above the relevant headings as foreseen by the IIA of 17 May 2006 (OJ C 139 of 14.6.2006)

⁶ The 2007 margin for heading 4 does not take into account the appropriations related to the Emergency Aid Reserve (EUR 234,5 million).

⁷ For calculating the margin under the ceiling for heading 5, account is taken of the footnote (1) of the financial framework 2007-2013 for an amount of EUR 76 million for the staff contributions to the pensions scheme.