



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from:	Presidency
to:	Permanent Representatives Committee / Council
Subject:	Multiannual Financial Framework (2014-2020) - Sections of Negotiating Box relating to Headings 1 (except cohesion and CEF), 3, 4, and 5 and to horizontal issues

Delegations will find enclosed the sections of the Negotiating Box relating to Headings 1 (except cohesion and CEF), 3, 4, and 5 and to horizontal issues.

The Negotiating Box is drawn up and developed under the responsibility of the Presidency. It is not binding on any delegation. This will remain the case throughout the negotiating process. The Presidency continues to be guided by the principle that nothing is agreed until everything is agreed.

The Negotiating Box is not a report on the discussions so far. It draws on the input provided by the orientation debates held since July 2011 and has an evolving character. Gradually, as the process advances, it will be updated following discussions within the Council.

GENERAL

1. Over recent years the European Union and its Member States have taken important steps in response to the challenges raised by the economic and financial crisis. At the same time, as fiscal discipline is reinforced in Europe, it is essential that the future Multiannual Financial Framework (MFF) reflects the consolidation efforts being made by Member States to bring deficit and debt onto a more sustainable path. The value of each euro spent must be carefully examined. Looking to the future, the next MFF must ensure that the European Union's budget is geared to lifting Europe out of the crisis. Spending at European level must fully reflect the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth. Growth and employment will only resume if a consistent and broad-based approach is pursued, combining smart fiscal consolidation that preserves investment in future growth, sound macroeconomic policies and an active employment strategy that preserves social cohesion. EU policies must be consistent with the principles of subsidiarity, proportionality and solidarity as well as provide real added value.
2. The new MFF will cover the seven years between 2014 and 2020 and be drawn up for a European Union comprising 28 Member States on the working assumption that Croatia will join the Union in 2013.
3. Expenditure will be grouped under five headings designed to reflect the Union's political priorities and providing for the necessary flexibility in the interest of efficient allocation of resources.

p.m. structure of the next MFF

The following options have been discussed as reflected in the elements of the box:

- *Maintaining one heading 1 with a sub-ceiling for cohesion and CEF or split it into two sub-headings :*
 - *sub-heading 1a "Competitiveness for growth and jobs"*
 - *sub-heading 1b "Economic, social and territorial cohesion "*
 - *the CEF could in that case be placed in either of the sub-headings*

- *inclusion of a new sub-ceiling under Heading 1 to contain large scale projects,*
- *Maintaining one Heading 3 or split it into two sub-headings :*
 - *sub-heading 3a "Security"*
 - *sub-heading 3b "Citizenship".*

4. The maximum total figure for expenditure for EU 28 for the period 2014-2020 is EUR X million in appropriations for commitments, representing X% of EU GNI. The breakdown of appropriations for commitments is described below. The same figures are also set out in the table contained in Annex I which equally sets out the schedule of appropriations for payments. All figures are expressed using constant 2011 prices. There will be automatic annual technical adjustments for inflation.

p.m. once the negotiation are finalised the figures will also be presented in current prices using a fixed deflator of 2%.

5. Having in mind the financial needs necessary to develop investment in Europe and the objective of maximising the leverage effect of actions supported by the EU budget, a more widespread use of financial instruments will be made as part of the implementation of the next MFF. Such financial instruments must address one or more specific policy objectives of the Union, operate in a non-discriminatory fashion, must have a clear end-date, respect the principles of sound financial management, be complementary to traditional instruments such as grants without compensating for implementation problems concerning these. The financial liability of the Union for such financial instruments in the next multiannual financial framework will be limited to the EU budget contribution and will not give rise to contingent liabilities for the Union budget.

Financial instruments can only be implemented when they meet strict conditions as laid down in the new Financial Regulation. Financing from the EU budget for the purpose of financial instruments should only happen on a reasonable scale and where there is an added value

6. *p. m. RAL.*

7. The EU has the responsibility, through robust controls and effective performance measurement, to ensure that funds are well spent. It must also respond to the need to simplify its spending programmes in order to reduce the administrative burden and costs for their beneficiaries and for all actors involved, both at the EU level at the national level. All sectoral legislation relating to the next MFF as well as the new Financial Regulation and the Interinstitutional Agreement on cooperation in budgetary matters and on sound financial management should therefore contain substantial elements contributing to simplification and improving accountability and effective spending of EU funds. A particular effort will be made, both in the legislation and in its implementation, to ensure that the principles of subsidiarity and proportionality are fully taken into account.
8. The optimal achievement of objectives in some policy areas depends on the mainstreaming of priorities into a range of instruments in other policy areas. Climate action and environment objectives will therefore be reflected in the appropriate instruments to ensure that they contribute to strengthen energy security, building a low-carbon, resource efficient and climate resilient economy that will enhance Europe's competitiveness and create more and greener jobs.
9. Following the agreement reached by the European Council, the legislative texts now need to be adopted following the procedures enshrined in the Treaty and respecting the role of the different institutions. In particular:
 - the Regulation laying down the MFF for the years 2014-2020 should be adopted by the Council and with the consent of the European Parliament;
 - a rapid adoption of the Decision on the system of own resources of the European Union as well as its implementing measures must also be ensured;
 - on the basis of the levels of commitments in this agreement, and noting the indicative figures proposed by the Commission for the objectives under all the Headings, the Council and the European Parliament are invited to come to a timely agreement on the content and appropriate funding of each of the proposed instruments, programmes and funds financed under the MFF.

In addition, the European Parliament, the Council and the Commission are invited to rapidly adopt the Interinstitutional Agreement on cooperation in budgetary matters and on sound financial management in order to complement the MFF.

HEADING 1 - SMART AND INCLUSIVE GROWTH (EXCEPT COHESION AND CEF)

10. Smart and inclusive growth corresponds to an area where EU action has significant value added. The programmes under this Heading have a high potential to contribute to the fulfilment of the Europe 2020 Strategy, in particular as regards the promotion of research, innovation and technological development; specific action in favour of the competitiveness of enterprises and SMEs; investing in human skills through the ERASMUS for all programme; and developing the social agenda. In allocating funding within this Heading, particular priority shall be given to delivering a substantial and progressive enhancement of the EU's research, education and innovation effort, including through simplification of procedures.
11. The level of commitments for this Heading will not exceed :

HEADING 1 - SMART AND INCLUSIVE GROWTH (except cohesion and CEF)						
(Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

12. There is a critical need to reinforce and extend the excellence of the Union's science base. The effort in research and development will therefore be based on excellence, while ensuring broad access to participants in all Member States; this, together with a thorough simplification of the programme, will ensure an efficient and effective future European Research Policy also ensuring better possibilities for SMEs to participate in the programmes. All policies will be called upon to contribute to increase competitiveness and particular attention will be paid to the coordination of activities funded through Horizon 2020 with those supported under other Union programmes, including through cohesion policy. In this context, important synergies will be needed between Horizon 2020 and the structural funds in order to create a "stairway to excellence" and thereby enhance regional R&I capacity and the ability of less performing and less developed regions to develop clusters of excellence.
13. The maximum amount for Galileo of [x] million euro will be fixed in the MFF-regulation.
14. *p.m. nuclear decommissioning.*

HEADING 3 - SECURITY AND CITIZENSHIP

15. Actions under this Heading constitute a diversified range of programmes targeted to security and citizens where cooperation at Union level offers value added. This includes actions in relation to asylum and migration and initiatives in the areas of external borders and internal security as well as measures in the field of justice. Actions within this Heading also support efforts to promote citizen participation in the European Union, including through culture and other creative sectors. Furthermore, it covers measures to enhance public health and consumer protection. Simplification of programmes will ensure a more efficient and effective future implementation of actions in this area.
16. The level of commitments for this Heading will not exceed :

HEADING 3 - SECURITY AND CITIZENSHIP						
(Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

HEADING 4 - GLOBAL EUROPE

17. External policies are a major field of action for the EU, which has been reinforced within the new institutional framework of the Lisbon Treaty. The MFF must underpin the EU's determination to develop its role as an active player on the international scene, with regional and global interests and responsibilities. Its financing instruments will strengthen EU's cooperation with partners, support the objectives of promoting EU values abroad, projecting EU policies in support of addressing major global challenges, increasing the impact of EU development cooperation, investing in the long-term prosperity and stability of the EU's Neighbourhood, supporting the process of EU enlargement, enhancing European solidarity following natural or man-made disasters, improving crisis prevention and resolution and combating climate change. Support to partners will be adapted to their development situation and commitment and progress with regard to human rights, democracy, the rule of law and good governance. Increased flexibility within heading 4 and efficiency in implementation will underpin this.
18. The level of commitments for this Heading will not exceed :

HEADING 4 - GLOBAL EUROPE						
(Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

19. A key priority for Member States is to respect the EU's formal undertaking to collectively commit 0.7% of GNI to official development assistance by 2015, thus making a decisive step towards achieving the Millennium Development Goals. The European Union should as part of this commitment therefore aim to ensure over the period 2014-2020 that at least 90% of its overall external assistance be counted as official development assistance according to the present definition established by the OECD Development Assistance Committee (DAC).

HEADING 5 - ADMINISTRATION

20. The need to consolidate public finances in short, medium and long term requires a particular effort by every public administration and its staff to improve efficiency, effectiveness and adjust to the changing economic context. Taking these fundamental circumstances as well as a number of specific factors determining the level of administrative expenditure and the need to preserve a highly professional and geographically balanced EU administration into account, the level of commitments for this Heading will not exceed :

HEADING 5 - ADMINISTRATION (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

21. Within such a ceiling, expenditure for administrative expenditure of institutions, excluding pensions and European Schools, will not exceed the following sub-ceiling.

Sub ceiling administrative expenditure (excluding pensions and European Schools) (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

22. In the context of general fiscal consolidation and recognising the need for a particular effort on savings, all EU institutions, bodies, agencies and their administrations shall put into effect the reduction of [X]% in the staff over the period [2013-2017] [so as to realize saving of [X] million euro].
23. Additional savings of [x] million euro in the period 2014-2020 should be ensured through reforms of the staff regulation. The development in costs for pensions will also be addressed in the reform of the staff regulation.

24. Additional savings of [x] million euro in the period 2014-2020 should be ensured in total non-staff expenditure.
25. The savings referred to in paragraphs 22, 23 and 24 shall be made binding through their insertion into the Inter Institutional Agreement on budgetary discipline and sound financial management.

Place in the negotiation box to be decided

26. [Administrative expenditure outside heading 5 will as a percentage of the total MFF amount remain constant / increase by maximum [x]/decrease by [x] during the period 2014-2020 compared to 2013.]

HORIZONTAL ISSUES - INSTRUMENTS OUTSIDE THE MFF AND FLEXIBILITY

To date, diverging positions have been expressed as regards both the very principle of putting items outside the MFF and on the manner in which instruments proposed by the Commission outside the MFF could be brought inside. The following section therefore includes possible options, and different modalities within these options, which may be either taken individually or combined together.

27. The MFF will include, as a rule, all items for which EU financing is foreseen, as a means of ensuring transparency and appropriate budget discipline. [However, given their specificities, some instruments will be placed outside the MFF.]

28.

(a) [ITER and GMES will be financed outside the MFF. Both projects will be funded by all Member States, based on the contribution key used for the purposes of calculating GNI own resource contributions. The level of commitments for these projects will not exceed:

ITER						
(Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

GMES						
(Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

OR

(b1) [The financing of ITER and GMES will be placed inside the MFF and will be included under Heading 1.]

OR

(b2) [The financing of ITER and GMES will be placed inside the MFF. The maximum amount for ITER of [x] million euro and for GMES of [x] million euro will be fixed in the MFF-regulation.]

OR

(b3) [The financing of ITER and GMES will be placed inside the MFF. They will be included [with Galileo] under a separate sub-ceiling for large scale projects. The level of commitments for this sub-ceiling will not exceed:]

Sub-ceiling for Large Scale Projects						
(Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

29. The Union must have the capacity to respond to exceptional circumstances, whether internal or external. At the same time, the need for flexibility must be weighed against the principle of budgetary discipline and transparency of EU expenditure including the agreed level of spending. In order to ensure the necessary level of flexibility, adequate margins will be set within each Heading, [amounting to x% of their overall commitment ceilings.]

30.

- (a) [The Emergency Aid Reserve the objective of which is to ensure capacity to respond rapidly to specific and unforeseeable aid requirements of third countries (humanitarian operations, civil crisis management and protection, migratory pressures) will be financed outside the MFF; there shall be a ceiling on the annual amount available in the Reserve of EUR [X] (2011 prices).]

OR

- (b) [The Emergency Aid Reserve the objective of which is to ensure capacity to respond rapidly to specific and unforeseeable aid requirements of third countries (humanitarian operations, civil crisis management and protection, migratory pressures) will be included under heading 4. there shall be a ceiling on the annual amount available in the Reserve of EUR [X] (2011 prices).]

31.

- (a) [The European Globalisation Adjustment Fund the objective of which is to support workers who suffer from the consequences of major structural changes in world trade patterns [as well as farmers suffering from effects of globalisation] will be financed outside the MFF; there shall be a ceiling on the annual amount available for the Fund of EUR [X] (2011 prices).]

OR

- (b) [The European Globalisation Adjustment Fund the objective of which is to support workers who suffer from the consequences of major structural changes in world trade patterns [as well as farmers suffering from effects of globalisation] will be included under heading X. There shall be a ceiling on the annual amount available for the Fund of EUR [X] (2011 prices).]

OR

- (c) [The European Globalisation Adjustment Fund will be abolished.]

32.

- (a) [The European Union Solidarity Fund the objective of which is to bring financial assistance in the event of major disasters will be financed outside the MFF; there shall be a ceiling on the annual amount available for the Fund of EUR [X] (2011 prices).]

OR

- (b) [The European Union Solidarity Fund the objective of which is to bring financial assistance in the event of major disasters will be included under heading X. There shall be a ceiling on the annual amount available for the Fund of EUR [X] (2011 prices).]

OR

- (c) [The European Union Solidarity Fund will be abolished.]

33.

- (a) [The Flexibility Instrument the objective of which is to finance clearly identified and unforeseen expenditures will be financed outside the MFF; the Flexibility Instrument's annual ceiling will be set at EUR [X] (2011 prices).]

OR

- (b) [The Flexibility Instrument the objective of which is to finance clearly identified and unforeseen expenditures will be included in the MFF as an instrument which can be used under all headings. The Flexibility Instrument's annual ceiling will be set at EUR [X] (2011 prices).]

34.

- (a) [A new Reserve for crises in the agricultural sector, to bring support in case of major crises affecting agricultural production or distribution, in case it cannot be financed within the limits of the ceiling available for Heading 2 will be financed outside the MFF; there shall be a ceiling on the annual amount available in the Reserve of EUR [X] (2011 prices).]

OR

- (b) [A new Reserve for crises in the agricultural sector, to bring support in case of major crises affecting agricultural production or distribution will be included under heading 2. There shall be a ceiling on the annual amount available in the Reserve of EUR [X] (2011 prices).]

OR

- (c) [A new Reserve for crisis in the agricultural sector will not be created.]

35. It is in the nature of flexibility instruments that they are only mobilised in case of need.

36.

- a. [A contingency reserve of [0.03] % of GNI will be established outside of the ceilings of the MFF as a last resort instrument to react to unforeseen circumstances.]

OR

- b. [A contingency reserve will not be created.]

37.

- (a) [The EU's assistance to the ACP countries has traditionally been financed outside the EU budget for historical and legal reasons. Whilst it would make sense, in principle, to bring this expenditure within the EU budget, in the current circumstances, with the Cotonou agreement due to expire in 2020, the EDF will remain outside the MFF. It is noted, that the Commission intends to propose the budgetisation of the EDF as of 2021. [p.m. contribution key for the 11th EDF].]

OR

- (b) [The EDF will be included under Heading 4.]
