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COVER NOTE

from:	Mr Janusz LEWANDOWSKI, Member of the European Commission
date of receipt:	27 June 2012
to:	Mr Bjarne CORYDON, President of the Council of the European Union
Subject:	Transfer of appropriations No DEC 19/2012 within Section III - Commission - of the general budget for 2012

Delegations will find attached Commission document DEC 19/2012.

Encl.: DEC 19/2012



EUROPEAN COMMISSION

BRUSSELS, 22/06/2012

GENERAL BUDGET - 2012
SECTION III - COMMISSION TITLES 08, 32

TRANSFER OF APPROPRIATIONS N° DEC 19/2012

EUR

FROM

CHAPTER - 3204 Conventional and renewable energies

ITEM - 32 04 14 01 Energy projects to aid economic recovery - Energy networks

Payments - 337 578 119

TO

CHAPTER - 0802 Cooperation - Health

ARTICLE - 08 02 01 Cooperation - Health

Payments 67 000 000

CHAPTER - 0803 Cooperation - Food, agriculture and fisheries, and biotechnology

ARTICLE - 08 03 01 Cooperation - Food, agriculture and fisheries, and biotechnology

Payments 118 000 000

CHAPTER - 0804 Cooperation - Nanosciences, nanotechnologies, materials and new production technologies

ARTICLE - 08 04 01 Cooperation - Nanosciences, nanotechnologies, materials and new production technologies

Payments 152 578 119

General introduction on DEC 19

On 20 April, the Commission presented a request (DEC 09) to transfer payment appropriations from the budget lines related to European Economic Recovery Plan (EERP) to the three budget lines under the 7th research framework programme (FP7): Cooperation – Health (08 02 01); Cooperation – Food (08 03 01); and Cooperation – Nanosciences (08 04 01). The cut by more than EUR 1 billion in payment appropriations under Heading 1a made by the Budgetary Authority to the draft budget 2012 proposed by the Commission, contributed to the shortage in payment appropriations on those three budget lines. (NB: 2012 payment appropriations under Heading 1a are lower than in the 2011 budget.)

Whereas Parliament approved the transfer request, on 8 June Council rejected more than two thirds of the requested transfer.

In the 3 months since the submission of the transfer request, spending on the three research budget lines concerned has continued at the pace foreseen by the Commission: at mid-June 2012 the corresponding rates of execution of available payment appropriations stood at 72%, 67% and 76 % respectively after reinforcement by DEC 09 as approved by the Council (execution is at 92%, 78% and 76% before DEC 09). The payment appropriations remaining on the 3 budget lines will just be sufficient to cover the interim and final payments related to ongoing projects which are expected before the end of the year, and for which the Commission must respect the contractual obligations to avoid late payment interests. That means that there are no payment appropriations to meet the pre-financing needs arising from the grants to be signed upon the closure of the evaluation and negotiation phases of the 2012 work programmes.

The Commission is in a position to sign around 200 grant agreements (40 in Health, 54 in Food and 106 in Nanosciences), the vast bulk of which by the end of the summer. However, that cannot be done without the requested reinforcement in payment appropriations. These grant agreements involve an estimated 2000 beneficiaries from all Member States. If there is no swift reinforcement of payment appropriations, the Commission will have to stop signing grant agreements which would have serious consequences for an important number of stakeholders (universities, research institutions, SMEs, and industries) that are counting on the EU support to go ahead with their research projects. The image of the EU as a reliable partner of the research community is also at stake.

The obvious consequence of delaying the signature of these grant agreements is that the planning and programming of the foreseen work will be disrupted. As most grant agreements involve a number of researchers in different member states, the planning and programming process which is already a complex task would be made much more difficult.

Circumstances will vary for each of the grant agreements. In some cases, beneficiaries when they are informed that they have been successful in the evaluation process, will already begin the process to recruit researchers and other staff as well as the process of obtaining the appropriate scientific equipment and material so as to make a prompt start of the work upon the signature of the grant agreement. In other cases, partners may have identified very specifically the timeframe during which scientists could be available for the project in question. A number of projects related to agriculture (Food programme) will have to be postponed for 6 or 12 months given the periodicity of the agricultural activities and productions. The real world effects would be very important for all the beneficiaries under these delayed grant agreements.

In case of Nanosciences, for projects having a strong industry participation and one of the highest SME participation (one third of partners are SMEs), a delay of months may lead to instability of a consortium and an increase of changes of partners, in some cases jeopardising the project itself. This is especially valid for grant agreements for which the negotiations are now well advanced and where the consortium is ready to sign or will be ready in the coming weeks. This situation covers almost all the Public Private Partnerships (PPPs) and part of the Coordination and Support Actions, meaning that such lack of payment credits for pre-financing is putting in immediate danger at least 47 projects if no additional funding is available rapidly.

Moreover, such delayed projects would for most of them require to be re-negotiated whenever funding would eventually become available, at least to revise the timetable of the activities but also to amend the composition of the consortium and the allocation of tasks.

For all grant agreements where negotiations are not yet finalised, there is serious risk that consortia will break up once they are informed that the grant agreement cannot be signed and pre-financing made available. This could cause a number of projects to collapse.

FP7 and the projects at stake are at the heart of the Europe 2020 strategy, endorsed by the European Council, and of the EU's efforts to promote growth and employment through research and innovation.

In this regard, the Commission is making its own efforts to speed up its procedures so that research grant agreements are concluded in a timely manner to ensure as short as possible time to grant for beneficiaries. Failure to reinforce the three budget lines would undermine any efforts to improve time-to-pay and to decrease time-to-grant, thus penalising beneficiaries of EU funds and delaying projects that contribute directly to the Europe 2020 Strategy.

The Commission is of the view that the requested transfer is fully consistent with the principle whereby appropriations entered in the budget are to be used in accordance with sound financial management, to which Member States are expected to cooperate (Art. 310§5 of the TFEU).

More generally, the Commission would like to stress that there need to be consistency between the level of commitment appropriations authorised in the current and past budgets and the corresponding level of payment appropriations. By approving a given level of commitment appropriations, the Budgetary Authority implicitly decides to provide in the future the equivalent amount of payment appropriations. The Commission understands the need to have a close monitoring of the payment requirements and their time-profile. However, the availability of payments appropriations cannot put into question the logic and the implementation of the Union budget by emasculating deliberate policy decisions taken by the Budgetary Authority itself when authorising commitment appropriations.

For the above reasons the Commission presents a new request to transfer EUR 337.6 million in payment appropriations to the three research budget lines.

I. INCREASE

I.A

a) Heading

08 02 01 - Cooperation - Health

b) Figures at 18/06/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	398 334 028
1B. Appropriation in budget (EFTA)	10 356 685
2. Transfers	114 225 753
3. Final appropriation for the year (1A+1B+2)	522 916 466
4. Utilisation of final appropriation	378 183 660
5. Amount not used/available (3-4)	144 732 806
6. Requirements up to year-end	211 732 806
7. Increase proposed	67 000 000
8. Increase as percentage of appropriation in budget (7/1A)	16.82%
9. Increase, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	46 014
2. Appropriation available on the 18/06/2012	0
3. Rate of utilisation $[(1-2)/1]$	100.00%

d) Detailed grounds for the increase

In mid-June the budget implementation rate stood at 72% of available appropriations (after inscription of DEC 09 as voted by the Council). Additional payment appropriations are needed to sign grant agreements.

The requested additional payment appropriations of EUR 67 million will allow to pre-finance new projects, in particular related to the call Health-2012-Innovation-1. The requested reinforcement will allow the launch of around 40 projects involving around 300 participants from Member States, and corresponding to an overall EU contribution of EUR 191 million.

I.B

a) Heading

08 03 01 - Cooperation - Food, agriculture and fisheries, and biotechnology

b) Figures at 18/06/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	181 450 215
1B. Appropriation in budget (EFTA)	4 717 706
2. Transfers	33 196 128
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3. Final appropriation for the year (1A+1B+2)	219 364 049
4. Utilisation of final appropriation	150 237 663
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5. Amount not used/available (3-4)	69 126 386
6. Requirements up to year-end	187 126 386
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7. Increase proposed	118 000 000
8. Increase as percentage of appropriation in budget (7/1A)	65.03%
9. Increase, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	1 169
2. Appropriation available on the 18/06/2012	0
3. Rate of utilisation [(1-2)/1]	100.00%

d) Detailed grounds for the increase

In mid-June the budget implementation rate stood at 67% of available appropriations (after inscription of DEC 09 as voted by the Council). Additional payment appropriations are needed to sign grant agreements.

The additional payment appropriations of EUR 118 million are foreseen to be paid for the pre-financing of new projects, in particular of the Call 6 Knowledge-based Bio-economy currently under negotiations. The requested reinforcement will allow the launch of around 54 projects involving 827 participants from Member States, corresponding to an overall EU contribution of EUR 255 million.

I.C

a) Heading

08 04 01 - Cooperation - Nanosciences, nanotechnologies, materials and new production technologies

b) Figures at 18/06/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	362 900 430
1B. Appropriation in budget (EFTA)	9 435 411
2. Transfers	0
3. Final appropriation for the year (1A+1B+2)	372 335 841
4. Utilisation of final appropriation	288 407 266
5. Amount not used/available (3-4)	83 928 575
6. Requirements up to year-end	236 506 694
7. Increase proposed	152 578 119
8. Increase as percentage of appropriation in budget (7/1A)	42.04%
9. Increase, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	2 149
2. Appropriation available on the 18/06/2012	0
3. Rate of utilisation $[(1-2)/1]$	100.00%

d) Detailed grounds for the increase

In mid-June the budget implementation rate stood at 76% of available appropriations. Additional payment appropriations are needed to sign grant agreements.

The additional payment appropriations of EUR 152.6 million are foreseen to be paid for the pre-financing of new projects from calls of 2012. The requested reinforcement will allow the launch of around 106 projects involving 864 participants from Member States, corresponding to an overall EU contribution of EUR 287 million.

The reinforcement of the line will be used for the pre-financing of the following contracts from the 8 calls of the Work programme 2012:

1. A key part of the European Economic Recovery Plan is a "mix" of regulation, R+D, national investment, Commission funding, European Investment Bank support and public private partnerships for forward looking investments. Accordingly, given the political priority of the measures put in place in this framework, the contracting and pre-financing of Public Private Partnerships (PPP) (3 calls) should not be further delayed. The current crisis and the pressures on the EU economy highlight the need for the best use of the PPPs. The three PPPs represent a powerful means of boosting research efforts in three large industrial sectors - automotive, construction and manufacturing - which have been particularly affected by the economic downturn and where innovation can significantly contribute towards a more green and sustainable economy. This led the Commission to propose, with the agreement of the Member States, a

bigger share of the PPPs in the 2012 Nanosciences, nanotechnologies, materials and new production technologies Programme, and led to the acceleration of selection and contracting process. The corresponding needs for the pre-financing of the PPP amount to € 105 million.

2. The pre-financing for the projects of 5 calls: Coordination and Support Actions (CSA), ERANET 2012, Large-6 (for Large-Scale integrating collaborative projects), Small-6 (for Small or medium-scale focused research projects), SMEs (for SME Target collaborative projects). The amount of EUR 47.6 million is needed by the end of July to finalise the contracting of these calls. This will also send a positive signal to the beneficiaries in the context of the current crisis and the need for the EU industry to get support for maintaining its effort in research and innovation, and providing a smooth transition to the Programme Horizon 2020 as from 2014.

II. DECREASE

a) Heading

32 04 14 01 - Energy projects to aid economic recovery - Energy networks

b) Figures at 18/06/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	526 288 963
1B. Appropriation in budget (EFTA)	0
2. Transfers	-13 721 881
3. Final appropriation for the year (1A+1B+2)	512 567 082
4. Utilisation of final appropriation	29 879 758
5. Amount not used/available (3-4)	482 687 324
6. Requirements up to year-end	145 109 205
7. Proposed decrease	337 578 119
8. Decrease as percentage of appropriation in budget (7/1A)	64.14%
9. Decrease, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	0
2. Appropriation available on the 18/06/2012	0
3. Rate of utilisation $[(1-2)/1]$	n/a

d) Detail grounds for the transfer

The availability of payment appropriations is the result of:

- Flexible/irregular payments schedule resulting from the legal acts:

The legal base for these EERP projects is the Regulation (EC) No 663/2009. The conditions for payments are set up by its implementing acts - Commission Decisions granting financial aid for each project. According to them the request for the final payment has to be introduced 9 months after the end date of the implementation period. They do not mention the pace of advanced payment and interim payments.

It should be noted that due to the characteristics of the EERP infrastructure projects, costs do not tend to occur steadily over time but in a couple of large batches over the duration of the project (e.g. procurement contract concluded, works achieved, etc.).

The duration of the implementation period for the 44 Commission Decisions varies from 18 months (from mid-July 2009 to end 2010) to 7 years (from mid July 2009 to June 2016). On average the duration of a project is around 3-4 years.

- Lower implementation of payments than initially foreseen:

When the programme was established, the Commission services anticipated a higher level of advance and interim payments during the implementation of the projects. Some beneficiaries of infrastructure projects did not request pre-financing as expected, for reasons related to bank guarantees, environmental permits or formal decisions to invest. Some intermediate payments have also been delayed. Given that, as mentioned above, the costs for these projects do not occur steadily, some beneficiaries had to revise their payment schedules.

However, for gas and electricity infrastructures the level of disbursement should not be treated as an indicator in evaluating the implementation of the actions mentioned in the Commission Decisions. In fact, the implementation of the programme to date is considered satisfactory. Out of the 44 projects:

- 13 projects are completed and so far the final payments have been executed for 7 projects.
- 19 projects are progressing according to schedule.
- 12 projects are progressing slower than expected because of technical, regulatory and commercial difficulties.

The Commission is closely monitoring the implementation of the projects as technical reports are sent annually, meetings with beneficiaries are planned on a regular basis and external experts visit the projects whenever payments are requested. The Commission is putting special focus on the 3 important projects (NABUCCO, POSEIDON, GALSI) which have not yet finalised the commercial agreements for gas supply aiming at diversifying EU's gas imports through new routes and new sources. In addition, following the justified request of the beneficiaries, the implementation period of delayed projects has been extended to cover the eligible costs.

So far the envisaged decommitments are based on the final payments executed, because for certain projects the level of costs incurred was less important than that estimated when the Commission Decisions were prepared. This is mainly due to a procurement outcome which was more favourable than initially planned.

According to the forecast provided by the beneficiaries at the beginning of 2012, the amount to be spent in 2012 is estimated at EUR 174.6 million. As EUR 18.1 million have been used for amending budget 2/2012, the total use of the appropriations available is EUR 192.7 million, leaving EUR 338.0 million available for the present transfer.