The financial perspective

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In the 1970s, budgetary changes introduced by the Treaties of Luxembourg and Brussels, signed in 1970 and 1975 respectively, made it possible for the Community's financial system to strike a certain legal, political and institutional balance. That balance came under mounting pressure between 1980 and 1988, a period punctuated by various disputes between the two arms of the budgetary authority (Parliament and Council), which led to increasing disruption of the annual budgetary procedure (delays in adopting the budget, Parliament's rejection of the budget, etc.). Furthermore, budgetary imbalances and the growing mismatch between resources and the Community's requirements were equally problematic issues lying at the root of those tensions.

In response to the succession of budget crises and inspired by a determination to meet the objectives of the Single European Act, scheduled to enter into force on 1 July 1987, which included the completion of the internal market and the enhancing of economic and social cohesion, the Commission submitted proposals to the Council and Parliament for reforming the Community financial system. In its **Communication** of 15 February 1987 entitled **'Making a success of the Single Act: a new frontier for Europe'**, generally known as the **'Delors I Package'**, the Commission introduced rules relating to budgetary discipline intended to help promote consensus between the two arms of the budgetary authority and, consequently, to improve the annual budgetary procedure. For that purpose, the Commission proposed the conclusion of an **interinstitutional agreement** under which Parliament, the Council and the Commission would reach prior agreement on the main budgetary priorities for the forthcoming period by establishing a framework of Community expenditure in the form of a **multiannual financial perspective**. Working on the basis of that proposal, and in the light of the conclusions of the Brussels European Council of 11 and 12 February 1988, the three institutions concluded the **Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure** on 29 June 1988 (which came into force on 1 July 1988). That agreement defined the principles of enhanced budgetary discipline and established the financial perspective for a five-year period, from **1988 to 1992**. The financial perspective was an integral part of the agreement as well as the key to the new arrangements for budgetary discipline. It was designed to ensure harmonious and controlled growth in the broad sectors of budgetary expenditure. It also indicated the maximum volume and the breakdown of foreseeable Community expenditure for a given period. In that way it reflected the priorities agreed for the conduct of Community policies and set limits for the growth in expenditure within the ceiling of own resources.

The substance of the financial perspective is presented in *tabular* format. In the table, the Community's budgetary expenditure is broken down into main categories or headings and then, in some cases, broken down again into subheadings. Each heading, which represents a main political priority for the period in question, consists of a maximum amount (a ceiling) for commitment appropriations, expressed in millions of ecus (in euros since 1999) for each financial year. The table also indicates the total amount of payment appropriations, given in millions of ecus (in euros since 1999) and as a percentage of the Community's gross national product (GNP) (gross national income (GNI) since 2002), on the basis of forecast GNP growth. It may thus be compared with the own resources ceiling, given as a percentage of GNP (GNI since 2002) and set by the decision on the systems of own resources of the Communities, to which reference is also made in that table. In addition, a margin is established to cover any unforeseen expenditure between the ceiling for payment appropriations and the ceiling for own resources.

The financial perspective is unlike indicative financial programming, in that the three institutions party to the Interinstitutional Agreement are bound to respect the established ceilings on expenditure. However, the financial perspective cannot be regarded as a multiannual budget because the annual budgetary procedure is still essential to determine the level of expenditure by item each year.

Once it has been adopted, the financial perspective may be modified. The Interinstitutional Agreement provides for two procedures by which such programming may be changed, namely by *annual adjustment* and by *revision*.

Annual adjustment consists of:
— *technical adjustments* made ahead of the budgetary procedure so as to take account of movements in GNP (GNI since 2002) and prices, and
— *adjustments connected with the conditions for implementation*, which involve adjustment of the total amount of payment appropriations on the basis of the rate of utilisation of commitment appropriations.

The financial perspective may be *revised* with a view to undertaking new operations not foreseen when the agreement was signed or bolstering existing policies. There were seven separate revisions between 1988 and 1992. Their main focus concerned the implementation of new measures of support in response to the upheavals on the international stage — such as German unification or the Gulf crisis. Furthermore, the financial perspective was revised halfway through its term in order to boost internal policies and to increase the assistance afforded to a number of developing countries.

In its **Communication** of 11 February 1992 entitled **'From the Single Act to Maastricht and beyond: the means to match our ambitions'**, generally known as the **'Delors II Package'**, the Commission declared its satisfaction at the reform undertaken in 1988. The Interinstitutional Agreement and the financial perspective had contributed considerably to easing the tensions of the 1980s. Since 1988, the budget has been adopted each year on time without any major clashes between the institutions, growth in budgetary expenditure has reached the desired level, and the actual amount of Community expenditure has remained below the ceiling of available own resources. Given that positive assessment and the expiry of the 1988–1992 financial perspective, the Commission proposed renewing the Interinstitutional Agreement and the financial perspective. The Commission therefore suggested new multiannual financial programming which would take account of the ambitious challenges connected with the signing of the Maastricht Treaty. Set against the background of an economy experiencing a greater than expected downturn, and following unsuccessful discussions at the Lisbon European Council in June 1992, the Commission suggested altering its initial proposal and extending the timetable for attainment of those objectives over seven years, i.e. until 1999 instead of 1997. Although the European Council, meeting in Edinburgh on 11 and 12 December 1992, had adopted the financial perspective for 1993–1999, its entry into force required prior consent from the other arm of the budgetary authority, namely Parliament, and the renewal of the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure, the object of which was to lay down the rules for its application. As Parliament considered the new financial framework to be too restrictive, a year of difficult negotiations had to be endured before Parliament, the Council and the Commission eventually reached agreement, on **29 October 1993**, on a new **Interinstitutional Agreement**. That agreement therefore applied for the full term of the **1993–1999 financial**

perspective.

Compared with the preceding period, the *table* headings for the new financial perspective had altered slightly, the most obvious change consisting in the introduction of new *reserves*. Since the financial perspective had been revised too frequently in the previous period, two new reserves were created in the area of external action to cover emergency aid and the risks resulting from lending to third countries. The introduction of those new reserves would ensure that budget funds were available and could be drawn on quickly throughout the year to meet unforeseen expenditure.

As the future enlargement of the Community to include Austria, Finland and Sweden, scheduled for 1 January 1995, drew nearer, it became essential to adjust the financial perspective. In accordance with paragraph 24 of the 1993 Interinstitutional Agreement, Parliament, the Council and the Commission agreed at the trialogue meeting of 29 November 1994 on an adjusted framework for the **1995–1999 financial perspective**. The new financial framework was signed by the Council on 5 December 1994 and by Parliament on 13 December 1994. Thanks to the speed at which they worked, it was possible not only to maintain the Interinstitutional Agreement but also to adopt, on time, the 1995 budget for a Community of 15 Member States. From 1 January 1995, this new financial perspective therefore replaced the financial perspective established at the Edinburgh European Council in December 1992. Consequently, in order to meet the requirements resulting from enlargement, the ceilings for the headings were raised and a new heading was added for the purpose of covering the *compensation* received by the new Member States over the 1995–1998 period in accordance with the relevant Act of Accession.

As the 1993–1999 financial perspective would shortly expire, the Madrid European Council of December 1995 called on the Commission to submit a communication on the future financial framework of the Union, taking the prospects of enlargement into account. On 16 July 1997, the Commission responded to that request by presenting the **Communication entitled ‘Agenda 2000: For a stronger and wider Union’** and, on 18 March 1998, it submitted a series of proposals which included the new table for the 2000–2006 financial perspective. ‘Agenda 2000’ negotiations began in a period fraught with difficulties: just as a new financial framework had been established, decisions had to be taken on reforming the common agricultural policy and on new guidelines for structural operations, and the financial impact of the forthcoming enlargements had to be determined. In March 1999, the Berlin European Council reached overall agreement on ‘Agenda 2000’ and, on **6 May 1999**, the new **Interinstitutional Agreement**, including the financial framework for the **2000–2006 period**, was concluded.

As to the headings of the *table* for the new financial perspective, few changes were made to the previous financial framework. However, in view of the impending enlargement, a new *‘pre-accession aid’* heading was added to cover the three pre-accession instruments established (the agricultural instrument, the structural instrument and the strengthened Phare programme for the applicant countries). A ‘flexibility instrument’ was also introduced and was intended to allow financing, for a given financial year, of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more headings.

In accordance with paragraph 25 of the Interinstitutional Agreement of 6 May 1999, the financial perspective had to be adjusted when the Union was enlarged to include new Member

States. The amounts approved in 1999 were based on the assumption that six new Member States would accede to the Union in 2002, but, as negotiations progressed, the fifth enlargement was expected to take place on 1 May 2004 and would involve 10 new Member States. Thus, on 30 January 2002, the Commission submitted to the Council a proposal for the adjustment of the financial perspective, which Parliament and the Council approved on 19 May 2003. That new **financial framework 2004–2006** entered into force in 2004, the first financial year affected by the enlargement.

On 10 February 2004, the Commission used its **Communication entitled 'Building our Common Future: Policy Challenges and Budgetary Means of the Enlarged Union 2007–2013'** to launch preparations for establishing the new 2007–2013 financial framework. In addition to the *table* by expenditure heading for the period 2007–2013, the Commission also proposed a new heading structure. Classification by heading, designed to facilitate assessment of the resources earmarked for meeting specific objectives, had remained largely unaltered since the establishment of the first financial perspective. This new structure comprised fewer headings and had greater room for manoeuvre in order to meet the policy or economic objectives that could not always be precisely predicted so far in advance. It was therefore simpler and less rigid. As to the *duration* of the financial perspective, which had in the past been either five or seven years, the Commission suggested reducing it to five years so as to be in line with the respective mandates of the Commission and Parliament. However, the Commission proposed, transitionally, a seven-year period extending from 2007 to 2013 before moving to a normal five-year cycle. That would be necessary because the evolution of market-related expenditure and direct payments in agriculture had already been set until 2013. On 14 July 2004, the Commission supplemented its February communication with a series of detailed proposals on implementing the new financial framework. That document was designed to serve as a basis for renewing the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure. In April 2005, with a view to reaching possible political agreement on the financial package at the Luxembourg European Council in June, the Commission made a number of technical adjustments to the initial amounts it had proposed in order to take account of various macroeconomic changes that had taken place since February 2004. The Commission's proposal was altered substantially during the in-depth discussions at the June 2005 European Council. However, it was not until the European Council of 15 and 16 December 2005 that a common position on the financial perspective was finally adopted by the Heads of State or Government. Considering that the European Council's conclusions did not guarantee 'an EU budget which [would] enhance prosperity, competitiveness, solidarity, cohesion and security', on 18 January 2006 the European Parliament rejected that agreement by a very large majority. On 1 February 2006, the Commission tabled a revised proposal designed to renew the Interinstitutional Agreement. The **Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management**, which was the result of the trialogue meeting of 4 April 2006, was signed on **17 May 2006** and was scheduled to enter into force on 1 January 2007.