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COVER NOTE

from :	General Secretariat of the Council
to :	Delegations
Subject :	**EUROPEAN COUNCIL** **7/8 FEBRUARY 2013** **CONCLUSIONS** **(MULTIANNUAL FINANCIAL FRAMEWORK)**

Delegations will find attached the conclusions of the European Council (7/8 February 2013) as regards the item Multiannual Financial Framework.[1]

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[1] The conclusions on the other items can be found in document 3/13.

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. Looking to the future, the next Multiannual Financial Framework (MFF) must ensure that the European Union's budget is geared to lifting Europe out of the crisis. The European Union's budget must be a catalyst for growth and jobs across Europe, notably by leveraging productive and human capital investments. Within the future Multiannual Financial Framework, spending should be mobilised to support growth, employment, competitiveness and convergence, in line with the Europe 2020 Strategy. At the same time, as fiscal discipline is reinforced in Europe, it is essential that the future 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 ensuring that the European Added Value and quality of spending under the future MFF are enhanced not least by pooling resources, acting as a catalyst and offering economies of scale, positive trans boundary and spill-over effects thus contributing to the achievement of agreed common policy targets more effectively or faster and reducing national expenditure. Sustainable 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 future financial framework must not only ensure the appropriate level of expenditure, but also its quality. The quality of expenditure will allow for a better development of the policies, taking full advantage of the opportunities they provide in terms of European value added, in particular in times of heavy constraint on the national budgets. All funding instruments should, therefore, be spent as effectively as possible. Efforts towards improving the quality of spending of the Union's funds need to include, *inter alia*, the better governance of the policies including certain conditionalities, concentration and targeting of funding, wherever possible in all funding instruments and programmes under all Headings, on areas that contribute most to growth, jobs and competitiveness. Regular reporting for the appraisal of results on all policies and funding instruments at political level should be ensured. In addition, elements ensuring the appropriate quality of expenditure must include flexibility, positive incentives, concentration of funds on growth-enhancing measures, evaluation and review, emphasis on results, simplification in delivery, appropriate technical assistance, application of competition principle in selecting the projects, and an appropriate use of financial instruments. The conclusions include a number of elements that provide for the application of the above principles. Furthermore, every effort should be made by all institutions of the Union so that the sectoral legislation of relevant funding instruments includes provisions aiming at enhancing the quality of spending.

3. To allow for a detailed assessment of the quality of spending and consistently with the annual evaluation report on the Union's finances provided by the Commission under Article 318 TFEU, the Commission will transmit each year to the Council and to the European Parliament a summary report for the CSF programmes (based on the annual implementation reports of the Member States) as well as a synthesis of all available evaluations of Programmes. In addition, two strategic reports for the CSF programmes will be presented during the programming period.

4. 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.

5. Expenditure will be grouped under six Headings designed to reflect the Union's political priorities and providing for the necessary flexibility in the interest of efficient allocation of resources.

The Multiannual Financial Framework for the period 2014 to 2020 will have the following structure:

- Sub-Heading 1a “Competitiveness for growth and jobs” which will include the Connecting Europe Facility;
- Sub-Heading 1b “Economic, social and territorial cohesion”;
- Heading 2 “Sustainable growth: natural resources” which will include a sub-ceiling for market related expenditure and direct payments;
- Heading 3 “Security and citizenship”;
- Heading 4 “Global Europe”;
- Heading 5 “Administration” which will include a sub-ceiling for administrative expenditure;
- Heading 6 "Compensations".

6. The European Council has reached political agreement that the maximum total figure for expenditure for EU 28 for the period 2014-2020 is EUR *959 988* million in appropriations for commitments, representing 1.00% of EU GNI and EUR *908 400* million in appropriations for payments representing 0.95% of the 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. This is the basis on which the Council will now seek the consent of the European Parliament in accordance with Article 312(2) TFEU which stipulates that the Council shall adopt the MFF regulation after obtaining the consent of the European Parliament.

In order to ensure that the Union can fulfill all its financial obligations stemming from existing and future commitments in the period 2014-2020 in accordance with Article 323 TFEU, specific rules for the management of the yearly payments ceilings will be laid down.

The statistical data and forecasts used to establish the eligibility and envelopes for the CSF funds and also for the calculation of total GNI are those used for the Commission update of the proposal for the MFF Regulation in July 2012 (COM(2012) 388).

7. 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 including project bonds will be made as part of the implementation of the next MFF. 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 and be complementary to traditional instruments such as grants. 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.

8. The RAL (*reste à liquider*) is an inevitable by-product of multi-annual programming and differentiated appropriations. However, for various reasons, the RAL will be significantly higher than expected at the end of the financial framework for 2007- 2013. In order, therefore, to ensure a manageable level and profile for the payments in all Headings several initiatives are an integral part of the agreement on the financial framework 2014-2020:

   - the levels of commitments are set at an appropriate level in all Headings;
   - de-commitments rules will be applied strictly in all Headings, in particular the rules for automatic de-commitments;
   - pre-financing rates are reduced compared to the period 2007-2013;
   - no degressivity of annual commitments for regional "safety net" arrangements under Cohesion Policy in order to contribute to the manageable profile of commitments and payments.

9. The EU has the responsibility, through certain conditionalities, robust controls and effective performance measurement, to ensure that funds are better 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 and that the specificities of small programmes in "mono-region" Member States are taken into account in the definition of lighter rules.

10. The optimal achievement of objectives in some policy areas depends on the mainstreaming of priorities such as environmental protection into a range of instruments in other policy areas. Climate action objectives will represent at least 20% of EU spending in the period 2014-2020 and 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.

11. In order to allow the EU budget to play its crucial role in fostering growth, jobs and competitiveness, the following legislative texts now need to be adopted as soon as possible 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;
- the Interinstitutional Agreement on cooperation in budgetary matters and on sound financial management;
- the Decision on the system of own resources of the European Union as well as its implementing measures.

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 appropriate funding of each of the proposed instruments, programmes and funds financed under the MFF, including the possibility of a review.

Recalling the intensive contacts held over the past months with the European Parliament, both in the margins of the meetings of the General Affairs Council and at the level of the Institutions' Presidents in line with Article 324 TFEU, the European Council invites the Presidency to rapidly take forward discussions with the European Parliament.

The Commission is invited to provide all assistance and support it deems useful to further the decision-making process.

12. The European Council calls on the co-legislators to adopt swiftly the financing programmes implementing the 2014-2020 Multiannual Financial Framework so as to ensure their timely roll-out from 1 January 2014. It recalls the shared objective and responsibility of the Institutions and the Member States to simplify the funding rules and procedures. The European Council welcomes progress made in the on-going negotiations and urges the co-legislators to agree on programmes that are simpler, that mark a clear reduction in administrative burden for public authorities and for beneficiaries. This would make the programmes more accessible, more flexible and strongly focused on the delivery of results in terms of growth and jobs, in line with our Europe 2020 strategy.

PART I : EXPENDITURE

SUB-HEADING 1a – COMPETITIVENESS FOR GROWTH AND JOBS

13. 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 education and 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.

14. Given their particular contribution to the objectives of the Europe 2020 Strategy, the funding for Horizon 2020 and ERASMUS for all programmes will represent a real growth compared to 2013 level.

15. The level of commitments for this sub-Heading, will not exceed *EUR 125 614 million* :

SUB-HEADING 1a - Competitiveness for growth and jobs (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
15 605	16 321	16 726	17 693	18 490	19 700	21 079

16. 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.

CONNECTING EUROPE FACILITY

17. Interconnected transport, energy and digital networks are an important element in the completion of the European single market. Moreover, investments in key infrastructures with EU added value can boost Europe's competitiveness in the medium and long term in a difficult economic context, marked by slow growth and tight public budgets. Finally, such investments in infrastructure are also instrumental in allowing the EU to meet its sustainable growth objectives outlined in the Europe 2020 Strategy and the EU's "20-20-20" objectives in the area of energy and climate policy. At the same time measures in this area will respect market actors' main responsibilities for planning and investment in energy and digital infrastructure.

The financial envelope for the implementation of the Connecting Europe Facility for the period 2014 to 2020 will be *EUR 29 299 million* including EUR *10 000 million* that will be transferred from the Cohesion Fund as provided in (a) below. That total amount will be distributed among the sectors as follows:

(a) transport: *EUR 23 174 million*, out of which EUR *10 000 million* will be transferred from the Cohesion Fund to be spent in line with the CEF Regulation in Member States eligible for funding from the Cohesion Fund;

(b) energy: *EUR 5 126 million*;

(c) telecommunications: *EUR 1000 million.*

The transfer from the Cohesion Fund for transport infrastructure under the Connecting Europe Facility will co-finance pre-identified projects listed in the annex to the CEF Regulation; until 31 December 2016, the selection of projects eligible for financing should be carried out respecting the national allocations transferred from the Cohesion Fund to the Connecting Europe Facility. Thereafter, any unused funds could be redeployed to new projects through new competitive calls for proposals.

18. The three large infrastructure projects of Galileo, ITER and GMES will be financed under sub-Heading 1a with an amount of *EUR 12 793 million*. In order to ensure sound financial management and financial discipline, the maximum level of commitments for each of these projects will be laid down in the MFF Regulation as follows:

a) Galileo: EUR 6 300 million

b) ITER: EUR 2 707 million

c) GMES: EUR 3 786 million

19. In order to support nuclear safety in Europe a support will be granted to the decommissioning of the following nuclear power plants[2]:
    - EUR 400 million to Ignalina in Lithuania for 2014 - 2020;
    - EUR 200 million to Bohunice in Slovakia for 2014 - 2020;
    - EUR 260 million to Kozloduy in Bulgaria for 2014 - 2020.

SUB-HEADING 1b – ECONOMIC, SOCIAL AND TERRITORIAL COHESION

COHESION POLICY

20. One important objective of the European Union is to promote economic, social and territorial cohesion and solidarity among Member States. Cohesion policy is in this respect the main tool to reduce disparities between Europe's regions and must therefore concentrate on the less developed regions and Member States. Cohesion policy is a major tool for investment, growth and job creation at EU level and for structural reforms at national level. It accounts for an important share of public investments in the EU, contributes to deepening of the internal market and thus plays an important role in boosting economic growth, employment and competitivenes. Furthermore Cohesion policy shall contribute to the Europe 2020 Strategy for smart, sustainable and inclusive growth throughout the European Union. Through the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF), it will pursue the following goals: "Investment for growth and jobs" in Member States and regions, to be supported by all the Funds; and "European territorial cooperation", to be supported by the ERDF. The Cohesion Fund will support projects in the field of environment and transport trans-European networks. The necessary support to human capital development will be ensured through an adequate share of the ESF in cohesion policy.

[2] Without prejudice to : the Protocol No. 4 on the Ignalina nuclear power plant in Lithuania and Protocol n°9 on unit 1 and unit 2 of the Bohunice V1 nuclear power plant in Slovakia attached to the Act of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic. (OJ L 236, 23.09.2003, p. 944.) as well as the Protocol concerning the conditions and arrangements for admission of the Republic of Bulgaria and Romania to the European Union.

21. As regards the structure of the Heading and considering the specificities of cohesion policy, cohesion expenditure will be contained within a sub-Heading under Heading 1 under the title ”Economic, social and territorial cohesion”.

Overall level of allocations

22. The level of commitments for sub-Heading 1b “Economic, social and territorial cohesion” will not exceed *EUR 325 149 million* :

SUB-HEADING 1b: Economic, social and territorial cohesion (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
44 678	45 404	46 045	46 545	47 038	47 514	47 925

23. Resources for the "Investment for growth and jobs" goal will amount to a total of *EUR 313 197 million* and will be allocated as follows:
    (a) a total of EUR 164 279 million for less developed regions;
    a total of EUR 31 677 million for transition regions;
    a total of EUR 49 492 million for more developed regions;
    a total of EUR 66 362 million for Member States supported by the Cohesion Fund;

    (b) a total of EUR 1 387 million as additional funding for the outermost regions identified in Article 349 of the Treaty and the northern sparsely populated regions fulfilling the criteria laid down in Article 2 of Protocol No 6 to the Treaty of Accession of Austria, Finland and Sweden.

24. Resources for the "European territorial cooperation" goal will amount to a total of *EUR 8 948 million* which will be distributed as follows:
    (a) a total of EUR 6 627 million for cross-border cooperation;
    (b) a total of EUR 1 822 million for transnational cooperation;
    (c) a total of EUR 500 million for interregional cooperation.

25. 0.35% of the global resources will be allocated to technical assistance at the initiative of the Commission. Technical assistance shall in particular be used to support institutional strengthening and administrative capacity building for the effective management of the Funds and supprting Member States in identifying and carrying out useful projects within the operational programmes for overcoming current economic challenges.

26. EUR 330 million of the Structural Funds resources for the Investment for growth and jobs goal will be allocated to innovative actions at the initiative of the Commission in the area of sustainable urban development.

Definitions and eligibility

27. Resources for the "Investment for growth and jobs" goal will be allocated to three types of regions, defined on the basis of how their GDP per capita, measured in purchasing power parities and calculated on the basis of Union figures for the period 2007 to 2009 relates to the average GDP of the EU-27 for the same reference period, as follows:

    (a) less developed regions, whose GDP per capita is less than 75 % of the average GDP of the EU-27;
    (b) transition regions, whose GDP per capita is between 75% and 90% of the average GDP of the EU-27;
    (c) more developed regions, whose GDP per capita is above 90 % of the average GDP of the EU-27.

28. The Cohesion Fund will support those Member States whose gross national income (GNI) per capita, measured in purchasing power parities and calculated on the basis of Union figures for the period 2008 to 2010, is less than 90 % of the average GNI per capita of the EU-27 for the same reference period.

29. For cross-border cooperation, the regions to be supported will be the NUTS level 3 regions of the Union along all internal and external land borders, and all NUTS level 3 regions of the Union along maritime borders separated by a maximum of 150 km, without prejudice to potential adjustments needed to ensure the coherence and continuity of cooperation programme areas established for the 2007-2013 programming period.

30. For transnational cooperation, the Commission will adopt the list of transnational areas to receive support, broken down by cooperation programme and covering NUTS level 2 regions while ensuring the continuity of such cooperation in larger coherent areas based on previous programmes.

31. For interregional cooperation, support from the ERDF will cover the entire territory of the Union.

32. At the request of a Member State, Nuts level 2 regions which have been merged by Commission Regulation (EU) 31/2011 of 17 January 2011, and where the application of the modified NUTS classification results in changes in the eligibility category status of one or more of the regions concerned, shall be part of the category determined at the level of the modified NUTS region.

Allocation method

Allocation method for less developed regions

33. The specific level of allocations to each Member State will be based on an objective method and calculated as follows :

    Each Member State's allocation is the sum of the allocations for its individual eligible regions, calculated according to the following steps:

(i) determination of an absolute amount (in euro) obtained by multiplying the population of the region concerned by the difference between that region's GDP per capita, measured in purchasing power parities (PPS), and the EU 27 average GDP per capita (PPS);

(ii) application of a percentage to the above absolute amount in order to determine that region's financial envelope; this percentage is graduated to reflect the relative prosperity, measured in purchasing power parities (PPS), as compared to the EU 27 average, of the Member State in which the eligible region is situated, i.e.:
- for regions in Member States whose level of GNI per capita is below 82% of the EU average: 3.15%
- for regions in Member States whose level of GNI per capita is between 82% and 99% of the EU average: 2.70%
- for regions in Member States whose level of GNI per capita is over 99% of the EU average: 1.65%;

(iii) to the amount obtained under step (ii) is added, if applicable, an amount resulting from the allocation of a premium of EUR 1 300 per unemployed person per year, applied to the number of persons unemployed in that region exceeding the number that would be unemployed if the average unemployment rate of all the EU less developed regions applied;

(iv) There will be no urban premium.

34. The result of the application of this methodology is subject to capping.

Allocation method for transition regions

35. The specific level of allocations to each Member State will be based on an objective method and calculated as follows :

Each Member State's allocation is the sum of the allocations for its individual eligible regions, calculated according to the following steps:

(i) determination of the minimum and maximum theoretical aid intensity for each eligible transition region. The minimum level of support is determined by the average per capita aid intensity per Member State before 60% regional safety net allocated to the more developed regions of that Member State. The maximum level of support refers to a theoretical region with a GDP per head of 75% of the EU27 average and is calculated using the method defined in paragraph 33(i) and (ii) above. Of the amount obtained by this method, 40% is taken into account;

(ii) calculation of initial regional allocations, taking into account regional GDP per capita through a linear interpolation of the region's relative wealth compared to EU-27;

(iii) to the amount obtained under step (ii) is added, if applicable, an amount resulting from the allocation of a premium of EUR 1 100 per unemployed person per year, applied to the number of persons unemployed in that region exceeding the number that would be unemployed if the average unemployment rate of all the EU less developed regions applied;

(iv) There will be no urban premium.

36. The result of the application of this methodology is subject to capping.

Allocation method for more developed regions

37. The total initial theoretical financial envelope is obtained by multiplying average aid intensity per head and per year of EUR 19.8 by the eligible population.

38. The share of each Member State concerned is the sum of the shares of its eligible regions, which are determined on the basis of the following criteria, weighted as indicated:

- total regional population (weighting 25%),
- number of unemployed people in NUTS level 2 regions with an unemployment rate above the average of all more developed regions (weighting 20%),

- employment to be added to reach the Europe 2020 target for regional employment rate (ages 20 to 64) of 75% (weighting 20%),
- number of people aged 30 to 34 with tertiary educational attainment level to be added to reach the Europe 2020 target of 40% (weighting 12.5%),
- number of early leavers from education and training (aged 18 to 24) to be subtracted to reach the Europe 2020 target of 10% (weighting 12.5%),
- difference between the observed GDP of the region (in PPS) and the theoretical regional GDP if the region would have the same GDP/head as the most prosperous NUTS2 region (weighting 7.5%),
- population of NUTS level 3 regions with a population density below 12.5 inh./km² (weighting 2.5%).

There will be no urban premium.

Allocation method for the Cohesion Fund

39. The total theoretical financial envelope is obtained by multiplying the average per capita aid intensity of EUR 48 by the eligible population. Each eligible Member State's *a priori* allocation of this theoretical financial envelope corresponds to a percentage based on its population, surface area and national prosperity, and obtained by applying the following steps:

(i) calculation of the arithmetical average of that Member State's population and surface area shares of the total population and surface area of all the eligible Member States. If, however, a Member State’s share of total population exceeds its share of total surface area by a factor of five or more, reflecting an extremely high population density, only the share of total population will be used for this step;

(ii) adjustment of the percentage figures so obtained by a coefficient representing one third of the percentage by which that Member State's GNI per capita (PPS) for the period 2008-2010 exceeds or falls below the average GNI per capita of all the eligible Member States (average expressed as 100%).

40. In order to reflect the significant needs of Member States, which acceded to the Union on or after 1 May 2004, in terms of transport and environment infrastructure, their share of the Cohesion Fund will be set at one third of the total final financial allocation after capping (structural funds plus Cohesion Fund) received on average over the period.

41. The Member States fully eligible for funding from the Cohesion Fund in the period 2007-2013, but whose nominal GNI per capita exceeds 90 % of the average GNI per capita of the EU-27 will receive support from the Cohesion Fund on a transitional and specific basis. This transitional support will be of EUR 48 per capita in 2014 and will degressively be phased out by 2020.

42. The result of the application of this methodology is subject to capping.

Allocation method for "European territorial cooperation"

43. The allocation of resources by Member State, covering cross-border and transnational cooperation, is determined as the weighted sum of the share of the population of border regions and of the share of the total population of each Member State. The weight is determined by the respective shares of the cross-border and transnational strands. The shares of the cross-border and transnational cooperation components are 77.9 % and 22.1 %.

Allocation method for outermost, sparsely populated regions and islands

44. Outermost regions and northern sparsely populated NUTS level 2 regions will benefit from an additional special allocation with an aid intensity of EUR 30 per inhabitant per year. It will be distributed per region and Member State in a manner proportional to the total population of these regions. The special situation of island regions also needs to be taken into account.

Capping

45. In order to contribute to achieve adequate concentration of cohesion funding on the least developed regions and Member States and to the reduction of disparities in average per capita aid intensities, the maximum level of transfer to each individual Member State will be set at 2.35 % of GDP. The capping will be applied on an annual basis, and will - if applicable - proportionally reduce all transfers (except for the more developed regions and "European territorial cooperation") to the Member State concerned in order to obtain the maximum level of transfer. For Member States which acceded to the Union before 2013 and whose average real GDP growth 2008-2010 was lower than -1%, the maximum level of transfer shall be increased by 10% producing a capping of 2.59 %.

46. Taking into account the present economic circumstances, the capping rules cannot result in national allocations higher than 110% of their level in real terms for the period 2007-2013.

Safety nets

47. For all regions whose GDP per capita for the 2007-2013 period was less than 75% of the EU-25 average, but whose GDP per capita is above 75% of the EU-27 average, the minimum level of support in 2014-20 under "Investment for growth and jobs" goal will correspond every year to 60% of their former indicative average annual allocation under the Convergence allocation, calculated by the Commission within the multiannual financial framework 2007-2013.

48. The minimum total allocation (Cohesion Fund and Structural Funds) for a Member State shall correspond to 55% of its individual 2007-2013 total allocation. The adjustments needed to fulfil this requirement are applied proportionally to the allocations of the Cohesion Fund and the Structural Funds, excluding the allocations of the European Territorial Cooperation Objective.

49. No transition region shall receive less than what it would have received if it had been a more developed region. In order to determine the level of this minimum allocation, the allocation distribution method for more developed regions will be applied to all regions having a GDP/head of at least 75% of the EU27 average.

Other special allocation provisions

50. A number of Member States have been particularly affected by the economic crisis within the euro-area which has had a direct impact on their level of prosperity. To address this situation and in order to boost growth and job creation in these Member States, the Structural Funds will provide the following additional allocations: EUR 1.375 bn for the more developed regions of Greece, EUR 1.0 bln for Portugal, distributed as follows : EUR 450 million for more developed regions of which EUR 150 million for Madeira, EUR 75 million for transition region and EUR 475 million for the less developed regions, EUR 100 million for the Border, Midland and Western region of Ireland, EUR 1.824 bn for Spain, out of which EUR 500 million for Extremadura and EUR 1.5 bn for the less developed regions of Italy, out of which EUR 500 million for non-urban areas.

51. In order to recognise the challenges posed by the situation of islands Member States and the remoteness of certain parts of the European Union, Malta and Cyprus shall receive, after the application of point 48, an additional envelope of EUR 200 million and EUR 150 million respectively under the "Investment for growth and jobs" goal and distributed as follows: one third for the Cohesion Fund and two thirds for the Structural Funds. Ceuta and Melilla shall be allocated an additional envelope of EUR 50 million under the Structural Funds. The outermost region of Mayotte shall be allocated a total envelope of EUR 200 million under the Structural Funds.

52. To facilitate the adjustment of certain regions either to changes in their status or to long-lasting effect of recent developments in their economy the following allocations are made: Belgium (EUR 133 million, out of which EUR 66.5 million for Limburg and EUR 66.5 million for Wallonia), Germany (EUR 710 million, out of which EUR 510 million for the ex-convergence regions and EUR 200 million for Leipzig). Notwithstanding point 45, the less developed regions of Hungary shall be allocated an additional envelope of EUR 1.560 billion, the less developed regions of the Czech Republic an additional envelope of EUR 900 mln (out of which EUR 300 million will be transferred from the rural development allocation of the Czech Republic) and the less developed region of Slovenia an additional envelope of EUR 75 mln, under the Structural Funds.

53. A total of EUR 150 million will be allocated for the PEACE Programme.

Review clause

54. To take account of the particularly difficult situation of Greece and other countries suffering from the crisis, in 2016, the Commission will review all Member States' total allocations under the "Investment for growth and jobs" goal of cohesion policy for 2017-2020, applying the allocation method defined in paragraphs 33 to 49 on the basis of the then available most recent statistics and of the comparison between the cumulated national GDP observed for the years 2014-2015 and the cumulated national GDP estimated in 2012. It will adjust these total allocations whenever there is a cumulative divergence of more than +/-5%. The total net effect of the adjustments may not exceed EUR 4 billion. The required adjustment will be spread in equal proportions over the years 2017-2020 and the corresponding ceiling of the financial framework shall be modified accordingly.

Co-financing rates

55. The co-financing rate at the level of each priority axis of operational programmes under the "Investment for growth and jobs" goal will be no higher than:

(a) 85 % for the Cohesion Fund;
(b) 85 % for the less developed regions of Member States whose average GDP per capita for the period 2007 to 2009 was below 85 % of the EU-27 average during the same period and for the outermost regions;
(c) 80% for the less developed regions of Member States other than those referred to in point (b) eligible for the transitional regime of the Cohesion Fund on 1 January 2014;
(d) 80% for the less developed regions of Member States other than those referred to in points (b) and (c), and for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27, as well as for regions defined in article 8(1) of the Regulation 1083/2006 receiving transitional support for the period 2007-2013;
(e) 60 % for the transition regions other than those referred to in point (d);
(f) 50 % for the more developed regions other than those referred to in point (d).

The co-financing rate at the level of each priority axis of operational programmes under the "European territorial cooperation" goal will be no higher than 85%. For those programmes where there is at least one less developed region participating the co-financing rate under the "European territorial cooperation" goal can be raised up to 85%.

The co-financing rate of the additional allocation for outermost regions identified in Article 349 of the Treaty and the NUTS level 2 regions fulfilling the criteria laid down in Article 2 of Protocol No 6 to the Treaty of Accession of Austria, Finland and Sweden will be not higher than 50%.

56. Increase in payments for Member State with temporary budgetary difficulties.

A higher co-financing rate (by 10 percentage points) can be applied when a Member State is receiving financial assistance in accordance with Articles 136 and 143 of the TFEU, thus reducing the effort required from national budgets at a time of fiscal consolidation, while keeping the same overall level of EU funding. This rule shall continue to apply to these Member States until 2016 when it shall be reassessed within the framework of the review foreseen in paragraph 54.

Regional Aid

57. Regional state aid rules must not distort competition. The European Council encourages the Commission to proceed to the quick adoption of the revised Regional Aid Guidelines which it has launched. In that context, the Commission will ensure that Member States can accommodate the particular situation of regions bordering convergence regions.

AID FOR MOST DEPRIVED PEOPLE

58. The support for aid for most deprived people will be EUR 2 500 million for the period 2014-2020 and will be taken from the ESF allocation.

YOUTH EMPLOYMENT INITIATIVE

59. On several occasions the European Council stressed that the highest priority should be given to promoting youth employment. It devoted a special meeting to this theme in January 2012 and gave it a strong emphasis in the Compact for Jobs and Growth. It expects the Council to adopt soon the recommendation on a Youth Guarantee. It invites the Commission to finalise the quality framework for traineeships, to establish the Alliance for Apprenticeships and to make proposals for the new EURES regulation in the coming weeks. The EU budget should be mobilised in support to these efforts. Recognising the particularly difficult situation of young people in certain regions, the European Council has decided to create a Youth Employment Initiative to add to and reinforce the very considerable support already provided through the EU structural funds. The Initiative will be open to all regions (NUTS level 2) with levels of youth unemployment above 25%. It will act in support of measures set out in the youth employment package proposed by the Commission in December 2012 and in particular to support the Youth Guarantee following its adoption. The support for the Initiative will be EUR 6 000 million for the period 2014-2020.

60. EUR 3 000 million will come from targeted investment from the European Social Fund in the eligible NUTS level 2 regions, proportionally to the number of unemployed youth in these regions, and EUR 3 000 million from a dedicated Youth Employment budget line under sub-heading 1b). Eligibility and number of unemployed youth will be determined on the basis of Union figures for the year 2012. For every intervention of the ESF in the eligible region, an equivalent amount will be added from the dedicated budget line. This matching amount will not be subject to the capping rules under paragraphs 45 and 46.

HEADING 2 - SUSTAINABLE GROWTH: NATURAL RESOURCES

61. The objectives of the Common Agricultural Policy (CAP) is to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture, to stabilise markets, to ensure the availability of supplies and to ensure that supplies reach consumers at reasonable prices. Account should be taken of the social structure of agriculture and of the structural and natural disparities between the various agricultural regions.

62. Against that background reforms must ensure 1) a viable food production; 2) sustainable management of natural resources and climate action; and 3) balanced territorial development. Furthermore, the CAP should be thoroughly integrated into the Europe 2020 strategy objectives notably the objective of sustainable growth, while fully respecting the objectives of this policy as set out in the Treaty.

63. Commitment appropriations for this Heading, which covers agriculture, rural development, fisheries and a financial instrument for the environment and climate action will not exceed *EUR 373 179 million* of which *EUR 277 851 million* will be allocated to market related expenditure and direct payments:

SUSTAINABLE GROWTH : NATURAL RESOURCES (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
55 883	55 060	54 261	53 448	52 466	51 503	50 558
of which : Market related expenditure and direct payments						
41 585	40 989	40 421	39 837	39 079	38 335	37 605

The Common Agricultural Policy for the period 2014-2020 will continue to be based on the two pillar structure:

- Pillar I will provide direct support to farmers and finance market measures. Direct support and market measures will be funded entirely and solely by the EU budget, so as to ensure the application of a common policy throughout the single market and with the integrated administration and control system (IACS).

- Pillar II of the CAP will deliver specific environmental public goods, improve the competitiveness of the agriculture and forestry sectors promote the diversification of economic activity and quality of life in rural areas including regions with specific problems. Measures in Pillar II will be co-financed by Member States according to the provisions in paragraph 73, which helps to ensure that the underlying objectives are accomplished and reinforces the leverage effect of rural development policy.

Pillar I

Level and model for redistribution of direct support - details of convergence across Member States

64. In order to adjust the overall level of expenditure under Heading 2 while respecting the principles of phasing-in of the direct payments as forseen in the Accession Treaties, the EU average level of direct payments in current prices per hectare will be reduced over the period . Direct support will be more equitably distributed between Member States, while taking account of the differences that still exist in wage levels, purchasing power, output of the agricultural industry and input costs, by stepwise reducing the link to historical references and having regard to the overall context of Common Agricultural Policy and the Union budget. Specific circumstances, such as agricultural areas with high added value and cases where the effects of convergence are disproportionately felt, should be taken into account in the overall allocation of support of the CAP.

    All Member States with direct payments per hectare below 90% of the EU average will close one third of the gap between their current direct payments level and 90% of the EU average in the course of the next period. However, all Member States should attain at least the level of EUR 196 per hectare in current prices by 2020. This convergence will be financed by all Member States with direct payments above the EU average, proportionally to their distance from the EU average. This process will be implemented progressively over 6 years from financial year 2015 to financial year 2020.

Capping of support to large farms

65. Capping of the direct payments for large beneficiaries will be introduced by Member States on a voluntary basis.

Method for financial discipline

66. With a view to ensuring that the amounts for the financing of the CAP comply with the annual ceilings set in the multiannual financial framework, the financial discipline mechanism currently provided for in Article 11 of the Regulation 73/2009, pursuant to which the level of direct support is adjusted when the forecasts indicate that the sub-ceiling of Heading 2 is exceeded in a given financial year should be maintained, but without the safety margin of EUR 300 million.

Greening of direct payments

67. The overall environmental performance of the CAP will be enhanced through the greening of direct payments by means of certain agricultural practices, to be defined in the *Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy*, beneficial for the climate and the environment, whilst avoiding unnecessary administrative burden, that all farmers will have to follow. In order to finance those practices, Member States will use 30 % of the annual national ceiling, with a clearly defined flexibility for the Member States relating to the choice of equivalent greening measures. The requirement to have an ecological focus area (EFA) on each agricultural holding will be implemented in ways that do not require the land in question to be taken out of production and that avoids unjustified losses in the income of farmers.

Flexibility between pillars

68. Member States may decide to make available as additional support for measures under rural development programming financed under the EAFRD, up to 15 % of their annual national ceilings for calendar years 2014 to 2019 as set out in Annex II to the Regulation on direct payments. As a result, the corresponding amount will no longer be available for granting direct payments.

69. Member States may decide to make available as direct payments under the Regulation on direct payments up to 15 % of the amount allocated to support for measures under rural development programming financed under the EAFRD in the period 2015-2020. Member States with direct payments per hectare below 90% of the EU average may decide to make available as direct payments an additional 10% of the amount allocated to support for measures under rural development. As a result, the corresponding amount will no longer be available for support measures under rural development programming.

Pillar II

Principles for distribution of rural development support

70. Support for rural development will be distributed between Member States based on objective criteria and past performance, while taking into account the objectives of the rural development and having regard to the overall context of Common Agricultural Policy and the Union budget.

71. The overall amount of support for rural development will be *EUR 84 936 million*. The annual breakdown will be fixed by the European Parliament and the Council. Amounts for the individual Member States will be adjusted to take account of the above mentioned provisions in paragraphs 68 and 69.

72. The distribution of the overall amount for rural development between Member States will be based on objective criteria and past performance.

For a limited number of Member States facing particular structural challenges in their agriculture sector or which have invested heavily in an effective delivery framework for Pillar 2 expenditure, the following additional allocations will be made: Austria (EUR 700 million), France (EUR 1000 million), Ireland (EUR 100 million), Italy (EUR 1 500 million), Luxembourg (EUR 20 million), Malta (EUR 32 million), Lithuania (EUR100 million), Latvia (EUR 67 million), Estonia (EUR 50 million), Sweden (EUR 150 million), Portugal (EUR 500 million), Cyprus (EUR 7 million), Spain (EUR 500 million), Belgium (EUR 80 million), Slovenia (EUR 150 million) and Finland (EUR 600 million). For Member States receiving financial assistance in accordance with Articles 136 and 143 TFEU, this additional allocation will be subject to a co-financing rate of 100%. This rule shall continue to apply to these Member States until 2016 when it shall be reassessed.

Co-financing rates for rural development support

73. The rural development programmes will establish a single EAFRD contribution rate applicable to all measures. Where applicable, a separate EAFRD contribution rate will be established for less developed regions, transition regions and for outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93. The maximum EAFRD contribution rate will be:

- 75% of the eligible public expenditure in the less developed regions, the outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93;

- 75% of the eligible public expenditure for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27;

- 63% of the eligible public expenditure for the transition regions other than those referred to in the previous indent;

- 53% of the eligible public expenditure in the other regions;

- 75% for operations contributing to the objectives of environment and climate change mitigation and adaptation;

- 100% for amounts transferred from pillar I to pillar II referred to in paragraph 68 as additional support under rural development.

The minimum EAFRD contribution rate will be 20%. Other maximum EAFRD contribution rates to specific measures will be set in the Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

A higher co-financing rate (by 10 percentage points) can be applied when a Member State is receiving financial assistance in accordance with Articles 136 and 143 of the TFEU, thus reducing the effort required from national budgets at a time of fiscal consolidation, while keeping the same overall level of EU funding. This rule shall continue to apply to these Member States until 2016 when it shall be reassessed within the framework of the review foreseen in paragraph 54.

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74. Financing under Heading 2 will also support the Common Fisheries Policy and Integrated Maritime Policies, in particular through the European Maritime and Fisheries Fund and an envelope for the international dimension of the CFP as well as activities in the fields of climate and environment through the Programme for the Environment and Climate Action (LIFE).

A new reserve for crises in the agricultural sector

75. 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 with an amount of EUR 2 800 million. The reserve will be established by applying at the beginning of each year a reduction to direct payments with the financial discipline mechanism. The amount of the reserve will be entered directly in the annual budget and if not made available for crisis measures will be reimbursed as direct payments.

PROVISIONS RELEVANT FOR THE ERDF, THE ESF, THE CF, THE EAFRD AND THE EMFF

The Common Strategic Framework

76. The structural and cohesion funds will be brought together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) under a the Common Strategic Framework - in order to maximise their effectiveness and optimise synergies. This will involve defining a list of thematic objectives in line with the Europe 2020 Strategy.

Macro-economic conditionality

77. Establishing a closer link between cohesion policy and the economic governance of the Union will ensure that the effectiveness of expenditure under the Common Strategic Framework (CSF) Funds is underpinned by sound economic policies and that the CSF Funds can, if necessary, be redirected to addressing the economic problems a country is facing. For this reason a gradual macro-economic conditionality will be established in the CSF Regulation.

78. The Commission may request a Member State to review and propose amendments to its Partnership Contract and the relevant programmes, where this is necessary to support the implementation of relevant Council recommendations or to maximise the growth impact of CSF funds in Member States receiving financial assistance from the EU. Such a request may be made to support implementation of:

(a) recommendations under the broad guidelines of the economic policy;
(b) employment recommendations;
(c) specific measures addressed to euro area Member States in accordance with Article 136(1);
(d) recommendations under the excessive deficit procedure;
(e) recommendations under the excessive imbalances procedure;
(f) union support under the medium-term balance of payments facility;
(g) union support under the European financial stabilisation mechanism;
(h) financial assistance under the European Stability Mechanism.

79. If a Member State fails to take effective action in response to a request from the Commission to review and propose amendments to its Partnership Contract and the relevant programmes, part or all of payments may be suspended.

80. Where it is concluded that a Member State has not taken sufficient action under:

(a) specific measures addressed to euro area Member States in accordance with Article 136(1);
(b) the excessive deficit procedure;
(c) the macro-economic imbalances procedure;
(d) a programme under the medium-term balance of payments facility;
(e) a programme under the European financial stabilisation mechanism;
(f) financial assistance under the European Stability Mechanism.

part or all of commitments and payments shall be suspended.

81. The proposal to suspend commitments shall be made by the Commission and will be considered automatically adopted by the Council, unless the Council rejects such a proposal by qualified majority within one month. The decision to suspend payments shall by made by the Council, on a proposal from the Commission. Any decisions on suspensions will be proportionate and effective, taking into account the economic and social circumstances of the Member State concerned, and respect equality of treatment between Member States, in particular with regard to the impact of the suspension on the economy of the Member State concerned. Priority should be given to the suspension of commitments; payments should only be suspended when immediate action is sought and in case of non-compliance.

82. The suspension of commitments shall be subject to a "double capping" methodology.

(a) a capping of maximum 50% of the CSF funds in the first case of an excessive deficit procedure (EDP) and maximum 25% of the CSF funds in the first case of an excessive imbalance procedure (EIP). The level of the suspension should be gradual and increase up to a maximum of 100% of the CSF funds in the case of an excessive deficit procedure and up to 50% of the CSF funds in the case of an excessive imbalance procedure, in line with the seriousness of the breach;

(b) a capping of a maximum 0.5% of nominal GDP applying to a first breach of an excessive deficit procedure (EDP) according to Art. 21 (6b) of the CSF regulation and a maximum of 0.25% of nominal GDP applying to a first breach of an excessive imbalance procedure (EIP) according to Art. 21 (6c) of the CSF regulation. If non-compliance persists, the percentage of this GDP cap should be gradually increased up to a maximum of 1% of nominal GDP applying to a further breach of an excessive deficit procedure (EDP) according to Art. 21 (6b) of the CSF regulation and a maximum of 0.5% of nominal GDP applying to a further breach of an excessive imbalance procedure (EIP) according to Art. 21 (6c) of the CSF regulation, in line with the seriousness of the breach.

83. Without prejudice to de-commitment rules, the suspension of commitments will be lifted by the Commission. Concerning payments, the decision to lift the suspension is taken by the Council on a proposal from the Commission. Funds are made available again to the Member State concerned as soon as the Member State takes the necessary action.

84. Paragraph 79 relating to paragraph 78 (a), (b), (d) and (e) and paragraph 80 (b) and (c) shall not apply to the UK as a consequence of the Protocol (no 15) annexed to the TEU and the TFEU, (see the report "Strengthening economic governance in the EU" by the Task Force on 21 October 2010).

Performance reserve

85. All Member States shall establish a national performance reserve for the Investment for growth and jobs goal of cohesion policy, as well as for EAFRD and EMFF, consisting of 7% of their total allocation, which will facilitate the focus on performance and the attainment of the Europe 2020 objectives. The amounts of commitments that are annually allocated to a national performance reserve are exempted from the n+3 de-commitment rule as long as the reserve is not allocated. The allocation of the reserve will be made after the performance review in 2019.

Pre-financing rates

86. The pre-financing payment at the start of programmes ensures that Member States have the means to provide support to beneficiaries in the implementation of the programme from the start. The following levels of pre-financing should therefore apply:

The initial pre-financing amount will be paid in instalments as follows:

(a) in 2014: 1% of the amount of support from the Funds for the entire programming period to the operational programme and 1.5% of the amount of support from the Funds for the entire programming period to the operational programme when a Member State has been receiving financial assistance since 2010, in accordance with articles 122, 143 of the TFEU, or from the EFSF, or is receiving financial assistance on 31 December 2013 in accordance with articles 136 and 143;

(b) in 2015: 1% of the amount of support from the Funds for the entire programming period to the operational programme and 1.5% of the amount of support from the Funds for the entire programming period to the operational programme when a Member State has been receiving financial assistance since 2010, in accordance with articles 122, 143 of the TFEU, or from the EFSF, or is receiving financial assistance on 31 December 2014 in accordance with articles 136 and 143;

(c) in 2016: 1% of the amount of support from the Funds for the entire programming period to the operational programme.

If an operational programme is adopted in 2015 or later, the earlier instalments will be paid in the year of adoption.

Other regulatory provisions

87. All programmes will be submitted to a decommitment procedure established on the basis that amounts linked to a commitment which are not covered by pre-financing or a request for payment within a period of N+3 will be decommitted.

For Romania and Slovakia, the European Council invites the Commission to explore practical solutions to reduce the risk of automatic de-commitment of funds from the 2007-2013 national envelope, including the amendment of Regulation 1083/2006.

Appraisal

88. On the basis provided in paragraph 3, the General Affairs Council will discuss every two years the implementation and results of the CSF funds and will provide input to the Spring Council's overall assessment of all EU policies and instruments to deliver growth and jobs across the European Union.

89. Projects whose total eligible cost is more than EUR 50 million (EUR 75 million in the case of transport projects) will be subject to a more extensive ex ante appraisal by the Commission to ensure that they are consistent with the Partnership Contract, they contribute to the objective of the programme, and they are economically sound.

90. The Commission and the Member States must agree ambitious targets at the beginning of the programming period. Targets must be measurable and include financial and output indicators. The Commission shall regularly review progress towards targets and report to the Council and European Parliament according to point 3. When there is evidence of significant failure to achieve the agreed targets, the Commission may apply financial corrections.

Application of the competition principle to project selection

91. Member States must ensure that the selection of projects is based on procedures and criteria, which are non-discriminatory, transparent and in full compliance with Union and national law so that only the best projects are chosen.

VAT

92. VAT shall not be eligible for a contribution from the CSF Funds and from the EUR 10 000 million transferred from the Cohesion Fund to the Connecting Europe Facility. However, VAT amounts shall be eligible where they are not recoverable under national VAT legislation.

HEADING 3 - SECURITY AND CITIZENSHIP

93. 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 in particular 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. Particular emphasis will be given to insular societies who face disproportional migration challenges. Actions within this Heading also support efforts to promote citizen participation in the European Union, including through culture, linguistic diversity and the creative sector. 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.

The level of commitments for this Heading will not exceed *EUR 15 686 million* :

HEADING 3 - SECURITY AND CITIZENSHIP (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
2 053	2 075	2 154	2 232	2 312	2 391	2 469

HEADING 4 - GLOBAL EUROPE

94. 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. Where appropriate and subject to objective criteria, 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.

The level of commitments for this Heading will not exceed *EUR 58 704 million*:

HEADING 4 - GLOBAL EUROPE (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
7 854	8 083	8 281	8 375	8 553	8 764	8 794

95. 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

96. 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. Expenditures under this Heading must take account of the capacity of the Institutions to carry out their tasks under the Treaties, the EU's growing legal obligations and the next enlargement of the EU. The EU Institutions must also preserve their capacity to attract and maintain a highly professional and geographically balanced EU administration.

97. The level of commitments for this Heading will not exceed *EUR 61 629 million*:

HEADING 5 - ADMINISTRATION (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
8 218	8 385	8 589	8 807	9 007	9 206	9 417

98. Within such a ceiling, expenditure for administrative expenditure of institutions, excluding pensions and European Schools, will not exceed *EUR 49 798 million* under the following sub-ceiling.

Sub ceiling administrative expenditure (excluding pensions and European Schools) (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
6 649	6 791	6 955	7 110	7 278	7 425	7 590

99. These ceilings include the effects of the following savings:

- a reduction applied to all EU institutions, bodies, agencies and their administrations of 5% in the staff over the period 2013-2017. This shall be compensated by an increase in working hours for staff without salary adjustment.
- reductions in non-staff related expenditure, further reforms of the Staff Regulation and other internal administrative measures.
- As part of the reform of the Staff Regulation, the adjustment of salaries and pensions of all staff through the salary method will be suspended for two years.
- The savings referred to above shall be equally shared between all institutions as well as other bodies according to a distribution key and this shall be made binding through their insertion into the Inter Institutional Agreement on budgetary discipline and sound financial management. Each Institution, body or agency is expected to present estimates of expenditure in the annual budgetary procedure consistent with the above orientations. The development in costs for pensions will also be addressed in the reform of the staff regulations. As part of the reform of the Staff Regulations, the new solidarity levy will be reintroduced at a level of 6% as part of the reform of the salary method. These measures will have a significant impact on the cost for pensions in the mid- and long-term.

100. The ceilings indicated above set the framework for the co-decision process which will decide the concrete implementation of these and the other measures proposed by the Commission (such as restrictions on early retirement, the extension of the retirement age as well as the method for fixing annual adjustments).

HORIZONTAL ISSUES - INSTRUMENTS OUTSIDE THE MFF AND FLEXIBILITY

101. 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, the Flexibility Instrument, the Solidarity Fund, the European Globalisation Adjustment Fund, the Emergency Aid Reserve and the European Development Fund will be placed outside the MFF.

102. 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. Therefore, the following flexibility instrument is built into the MFF: within Heading 2 a new reserve for crises in the agricultural sector is created to bring support in case of major crises affecting agricultural production or distribution.

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

103. The European Union Solidarity Fund, the objective of which is to bring financial assistance in the event of major disasters, will continue to be financed outside the MFF with a maximum annual amount of EUR 500 million (2011 prices).

104. The Flexibility Instrument, the objective of which is to finance clearly identified and unforeseen expenditures, will continue to be financed outside the MFF with a maximum annual amount of EUR 471 million (2011 prices).

105. 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 continue to be financed outside the MFF with a maximum annual amount of EUR 280 million (2011 prices).

106. The European Globalisation Adjustment Fund will continue to be financed outside the MFF with a maximum annual amount of EUR 150 million (2011 prices).

107. A Contingency Margin of up to 0,03 % of the Gross National Income of the Union shall be constituted outside the ceilings of the financial framework for the period 2014-2020, as a last-resort instrument to react to unforeseen circumstances. The decision to mobilise the Contingency Margin shall be taken jointly by the two arms of the budgetary authority. The Council shall act by qualified majority. Recourse to the contingency margin shall not exceed, at any given year, the maximum amount foreseen in the annual technical adjustment of the MFF and shall be consistent with the own resources ceiling. Amounts made available through the mobilisation of the Contingency Margin shall be fully offset against the margins in one or more financial framework headings for the current or future financial years. The amounts thus offset shall not be mobilised in the context of the financial framework. Recourse to the Contingency Margin shall not result in exceeding the total ceilings of commitment and payment appropriations laid down therein for the current and future financial years.

108. The EU's assistance to the ACP countries has traditionally been financed outside the EU budget for historical and legal reasons. In the current circumstances, with the Cotonou agreement due to expire in 2020, the EDF will remain outside the 2014-2020 MFF. It is noted, that the Commission intends to propose the budgetisation of the EDF as of 2021. The total amount available for the EDF will be EUR 26 984 million. The contribution key for the 11th EDF is contained in annex 2.

109. Specific and maximum possible flexibility will be implemented in order to comply with Article 323 TFEU to allow the Union to fulfil its obligations. This will be part of the mandate on the basis of which the Presidency will take forward discussions with the European Parliament in line with point 11.

Improved and increased EIB involvement

110. The EIB is already supporting growth considerably e.g. by providing loans to Member States which otherwise could not provide co-financing for structural funds or by implementing joint financial instruments. EIB involvement should be enhanced by:
   (a) involving EIB expertise early in project co-financed by EU and EIB;
   (b) ensuring that EIB is informed about projects receiving EU support;
   (c) involving the EIB in the ex ante appraisal of large projects including through Jaspers;
   (d) involving the EIB wherever appropriate in activities related to technical assistance.

PART II : REVENUE

111. The own resources arrangements should be guided by the overall objectives of simplicity, transparency and equity. The total amount of own resources allocated to the Union budget to cover annual appropriations for payments shall not exceed 1.23% of the sum of all the Member States' GNIs. The total amount of appropriations for commitments entered in the Union budget shall not exceed 1.29% of the sum of all the Member States' GNIs. An orderly ratio between appropriations for commitments and appropriations for payments shall be maintained to guarantee their compatibility.

112. The new system of own resources of the European Union will enter into force on the first day of the month following receipt of the notification of its adoption by the last Member State. All its elements will apply retroactively from 1 January 2014.

Traditional own resources

113. The system for collection of traditional own resources will remain unchanged.
   However, from 1 January 2014, Member States shall retain, by way of collection costs, 20% of the amounts collected by them.

VAT-based own resource

114. The European Council calls upon the Council to continue working on the proposal of the Commission for a new own resource based on value added tax (VAT) to make it as simple and transparent as possible, to strengthen the link with EU VAT policy and the actual VAT receipts, and to ensure equal treatment of taxpayers in all Member States. The new VAT own resource could replace the existing own resource based on VAT.

FTT-based own resource

115. On 22 January 2013 the Council adopted the Council Decision authorising enhanced cooperation in the area of financial transaction tax. The participating Member States are invited to examine if it could become the base for a new own resource for the EU budget. This would not impact non-participating Member States and would not impact the calculation of the United Kingdom correction.

GNI-based own resource

116. The method of applying a uniform rate for determining Member States' contributions to the existing own resource based on gross national income (GNI) will remain unchanged, without prejudice to points 115 and 118.

Implementing regulation

117. On the basis of Art. 311(4) TFEU, a Council Regulation laying down implementing measures will be established.

Corrections

118. The existing correction mechanism for the United Kingdom will continue to apply.

For the period 2014-2020 only:

- the rate of call of the VAT-based own resource for Germany, The Netherlands and Sweden shall be fixed at 0.15%;
- Denmark, The Netherlands and Sweden will benefit from gross reductions in their annual GNI contribution of EUR 130 million, EUR 695 million and EUR 185 million respectively. Austria will benefit from gross reduction in its annual GNI contribution of EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016.

ANNEX I

MULTIANNUAL FINANCIAL FRAMEWORK (EU-28)

(EUR million - 2011 prices)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
1. Smart and Inclusive Growth	**60.283**	**61.725**	**62.771**	**64.238**	**65.528**	**67.214**	**69.004**	**450.763**
1a: Competitiveness for growth and jobs	15.605	16.321	16.726	17.693	18.490	19.700	21.079	125.614
1b: Economic, social and territorial cohesion	44.678	45.404	46.045	46.545	47.038	47.514	47.925	325.149
2. Sustainable Growth: Natural Resources	**55.883**	**55.060**	**54.261**	**53.448**	**52.466**	**51.503**	**50.558**	**373.179**
of which: Market related expenditure and direct payments	41.585	40.989	40.421	39.837	39.079	38.335	37.605	277.851
3. Security and citizenship	**2.053**	**2.075**	**2.154**	**2.232**	**2.312**	**2.391**	**2.469**	**15.686**
4. Global Europe	**7.854**	**8.083**	**8.281**	**8.375**	**8.553**	**8.764**	**8.794**	**58.704**
5. Administration	**8.218**	**8.385**	**8.589**	**8.807**	**9.007**	**9.206**	**9.417**	**61.629**
of which: Administrative expenditure of the institutions	6.649	6.791	6.955	7.110	7.278	7.425	7.590	49.798
6. Compensations	**27**	**0**	**0**	**0**	**0**	**0**	**0**	**27**
TOTAL COMMITMENT APPROPRIATIONS	**134.318**	**135.328**	**136.056**	**137.100**	**137.866**	**139.078**	**140.242**	**959.988**
as a percentage of GNI	1,03%	1,02%	1,00%	1,00%	0,99%	0,98%	0,98%	1,00%

TOTAL PAYMENT APPROPRIATIONS	**128.030**	**131.095**	**131.046**	**126.777**	**129.778**	**130.893**	**130.781**	**908.400**
as a percentage of GNI	0,98%	0,98%	0,97%	0,92%	0,93%	0,93%	0,91%	0,95%

OUTSIDE THE MFF	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
Emergency Aid Reserve	280	280	280	280	280	280	280	1.960
European Globalisation Fund	150	150	150	150	150	150	150	1.050
Solidarity Fund	500	500	500	500	500	500	500	3.500
Flexibility instrument	471	471	471	471	471	471	471	3.300
EDF	2.952	3.868	3.911	3.963	4.024	4.094	4.174	26.984
TOTAL OUTSIDE THE MFF	**4.353**	**5.269**	**5.312**	**5.364**	**5.425**	**5.495**	**5.575**	**36.794**
as a percentage of GNI	0,03%	0,04%	0,04%	0,04%	0,04%	0,04%	0,04%	0,04%

TOTAL MFF + OUTSIDE MFF	**138.671**	**140.597**	**141.368**	**142.464**	**143.291**	**144.573**	**145.817**	**996.782**
as a percentage of GNI	1,06%	1,06%	1,04%	1,04%	1,03%	1,02%	1,02%	1,04%

MULTIANNUAL FINANCIAL FRAMEWORK (EU-28)

(EUR million - current prices)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
1. Smart and Inclusive Growth	**63.972**	**66.812**	**69.304**	**72.342**	**75.270**	**78.751**	**82.466**	**508.918**
1a: Competitiveness for growth and jobs	16.457	17.553	18.345	19.794	21.095	22.927	25.026	141.197
1b: Economic, social and territorial cohesion	47.434	49.171	50.864	52.447	54.065	55.707	57.316	367.005
2. Sustainable Growth: Natural Resources	**59.304**	**59.598**	**59.908**	**60.191**	**60.267**	**60.344**	**60.422**	**420.035**
of which: Market related expenditure and direct payments	44.130	44.368	44.628	44.863	44.889	44.916	44.942	312.737
3. Security and citizenship	**2.179**	**2.246**	**2.378**	**2.514**	**2.655**	**2.801**	**2.950**	**17.723**
4. Global Europe	**8.335**	**8.750**	**9.142**	**9.432**	**9.824**	**10.269**	**10.509**	**66.261**
5. Administration	**8.721**	**9.076**	**9.483**	**9.919**	**10.346**	**10.787**	**11.254**	**69.585**
of which: Administrative expenditure of the institutions	7.056	7.350	7.678	8.008	8.360	8.700	9.071	56.224
6. Compensations	**29**	**0**	**0**	**0**	**0**	**0**	**0**	**29**
TOTAL COMMITMENT APPROPRIATIONS	**142.539**	**146.482**	**150.215**	**154.398**	**158.363**	**162.952**	**167.602**	**1.082.551**
as a percentage of GNI	1,03%	1,02%	1,00%	1,00%	0,99%	0,98%	0,98%	1,00%

TOTAL PAYMENT APPROPRIATIONS	**135.866**	**141.901**	**144.685**	**142.771**	**149.074**	**153.362**	**156.295**	**1.023.956**
as a percentage of GNI	0,98%	0,98%	0,97%	0,92%	0,93%	0,93%	0,91%	0,95%

OUTSIDE THE MFF	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
Emergency Aid Reserve	297	303	309	315	322	328	335	2.209
European Globalisation Fund	159	162	166	169	172	176	179	1.184
Solidarity Fund	531	541	552	563	574	586	598	3.945
Flexibility instrument	500	510	520	531	542	552	563	3.719
EDF	3.132	4.187	4.318	4.463	4.622	4.796	4.988	30.505
TOTAL OUTSIDE THE MFF	**4.752**	**5.839**	**6.003**	**6.182**	**6.375**	**6.585**	**6.812**	**42.548**
as a percentage of GNI	0,03%	0,04%	0,04%	0,04%	0,04%	0,04%	0,04%	0,04%

TOTAL MFF + OUTSIDE MFF	**147.291**	**152.321**	**156.219**	**160.580**	**164.738**	**169.537**	**174.414**	**1.125.099**
as a percentage of GNI	1,06%	1,06%	1,04%	1,04%	1,03%	1,02%	1,02%	1,04%

ANNEX II

11th European Development Fund contribution key

	11th EDF contribution key
BE	3,25%
BG	0,22%
CZ	0,80%
DK	1,98%
DE	20,58%
EE	0,09%
IE	0,94%
EL	1,51%
ES	7,93%
FR	17,81%
IT	12,53%
CY	0,11%
LV	0,12%
LT	0,18%
LU	0,26%
HU	0,61%
MT	0,04%
NL	4,78%
AT	2,40%
PL	2,01%
PT	1,20%
RO	0,72%
SI	0,22%
SK	0,38%
FI	1,51%
SE	2,94%
UK	14,68%
HR	0,23%