DECISION OF
THE EUROPEAN COUNCIL

Reviewing the EU budget and giving
binding guidance to the 2014-2018 financial framework

Sustainable Growth

1.

The Lisbon Strategy aimed at making the European Union (EU) the most competitive, dynamic, knowledge-based economy in the world. Adopted in March 2000, its goals still remain the key issues comforting the EU. With this agreement on the future of the financial framework, the European Member States (Member States) strive to quicken the pace of reforms that will secure a prosperous, fair and environmentally sustainable Europe.

2.

The Member States are satisfied with the operation of Seventh Framework Programme, which supports research and development activities covering all scientific disciplines. But the funds for trans-national cooperation are not sufficient. The European objective of 3% of GDP devoted to research and development, with 1% from the public sector and 2% from the private sectors is closer than ever, but still a lot of work must to be done. There is a need to devote financing to collaborative research concerning environmental issues (*inter alia*, climate change, alternative fuels, reduction of emissions) as well as to information technology, communications, space, security, medical research and new production technologies. The Member States agree to create a European Research Fund (ERF) to introduce new dynamism in research and stimulate competition by rewarding excellence. The ERF can also play an important role in increasing mobility between universities and strengthening trans-national cooperation.

3.

Education plays an essential role in a knowledge-based economy and support growth and employment by providing well prepared, highly educated labour to the economy. As an increase in the funding of Erasmus Mundus Programme turned out a success, the Member States agree to assure continuous stable growth of this fund. Not only does it create international students and universities liaisons, but also allows for young Europeans to travel within the EU, which is important for the enhancement of integration. With the new financial framework beginning in 2014 the spending for Education and Research Programs shall be 7% of the European budget.

4.

In the field of energy the priorities are: assuring stability of the European Union in the field of energy supplies, reducing to a minimum energy imports, diversification of energy sources, and introducing pro-environmental solutions, such as renewable, less environmentally harmful sources of energy.

Financing & Revenue

5.

The budget will be 1% of the total GNI of the European Union.

6.

The duration of the multiannual financial frameworks will be set to five years from 2019 on allowing the framework to be synchronic with the elections of the European Parliament and the appointment of the European Commission in the year of 2019.

7.

In order to strengthen the solidarity and equality of contribution to the European Union and the flexibility of fiscal policies; all rebates will be abolished and a new General Correction Mechanism (GCM) will be established. The GCM will consist of an automatic adjustment target designed to alleviate the pressure on Member States that are net contributors to the EU Budget. The GCM creates a two-tier contribution model, in which net contributions by member countries are done at the level of 100% of the originally calculated amount up to a specific threshold of the GNI. For the new Financial Perspective the threshold starts on a level of 0,2% of the GNI in year one. Every year it will be increased by 0,02% until the final year of the Financial Perspective. Above this threshold net contributions will be 33% of the original calculated amount and will not be capped. After five years this mechanism will be reviewed and renegotiated. Taking into consideration the economic realities of the Member States the EU Council should strive to make sure that any reform of the Framework will not reduce the budget.

8.

The General Correction Mechanism is only a temporary mechanism to adjust for distortions which affected the budget in the past. These distortions should disappear. The mechanism will be revised again at the end of the next financial framework (2018). Sufficient alternative instruments to guarantee equal distributions shall be found. In the long run any deviation from a simple and fair contribution mechanism for every Member State should be abolished under the consensus of the European Council.

9.

The European Council had a detailed and intensive discussion in an attempt to explore different instruments of own resources that the EU can raise. On the advice of the European Parliament, the

European Council urges the European Commission to further explore significant amounts of 'own-resources' as a means of funding the EU budget.

10.

The only revenue source directly produced by the Single Market is tariff revenue, as such all tariffs should be widely in the command of the European Union. The current percentage withheld by the Member States of collected tariff will be reduced from 25% to 15%.

Common Agricultural Policy

11.

The evolution of our rural societies calls for a re-evaluation of the budget intended for the Common Agricultural Policy (CAP). Resources shall be allocated according to the evolving needs of European farmers; the goal is to promote extensively run farms, which do not need the financial support of the European Union. This process will need time and will require restructuring, particularly in Member States where farms are mostly middle size. In order to accompany such a shift, a proportion of the EU budget will be allocated to help farmers restructure their farms and activities. Smaller farms without such potential have to be helped to transition into other, less productive but more qualitative and service oriented types of farms. In some regions farms are sufficiently large to be in a position to rely on their own sales. For these farms, subsidies should be progressively abolished.

12.

In the face of the evolution of agriculture and the changes in our societies, there is a need for continue reform of the Common Agricultural Policy, which has already started in the past years with the single payment system and the environmental contingency upon receiving these payments. The Member States want to preserve a diversified agriculture, which simultaneously respects European traditions and furthers the integration of urban living styles into rural lands. With a view to achieving these goals, co-financing of the CAP will be phased-in for the duration of this budget cycle. Co-Financing will allow individual Member States the necessary flexibility to achieve the rural develop goals. This co-finance will be limited to 50% of the spending out of the Common Agricultural Fund in the individual Member State.

13.

The budget for the ongoing system shall be reduced. The CAP pillar will be reduced from 34% to 20%. The direct payments to small farms that produce high quality products should be financed directly, and payments to large farms shall be abolished. In all Member States only small farms producing high quality goods, which rely on farm subsidies to survive, shall continue to receive such aids. Thereby new member states are going to receive the largest proportion of direct aids in order to support their effort to create a strong agricultural sector.

Environmental Protection

14.

Global warming and climate change are a very serious concern of all EU countries and their citizens. Environmental protection, adaptation to climate change and investment in cleaner infrastructures and energy should be addressed by the EU budget with more focus. There will be a separate subheading called Environmental Protection. A total of 10% of the EU budget will be earmarked for this separate subheading. We want to address the concerns of the people for the protection of environment. At the same time more focus on this area will try to create renewed awareness among the skeptics on the adverse effects of climate change. This fund will be used for producing innovative technology in the sectors of clean and renewable energy, environmental friendly transport system and in ensuring less carbon emission. This fund will also be used to encourage private investment in achieving the targets of making EU more livable and environmental friendly. Furthermore, this fund should be used to support disadvantaged and problematic regions who suffer from the consequences of climate change. The definitions for environmental relevant acting are given in the OECD Document DCD/DAC (2002) 21/ADD.

European Integration

15.

The EU recognizes the need for a continued process of integration. Strengthening economic, social and territorial cohesion between Member States is crucial for the EU. European Union can only achieve its objectives, and deliver to its citizens, if it acts to forge stronger links and understanding. Continuous diminishing of divergences between countries will remain a priority. The EU will expand its cohesion funds to 37% of the budget and focus their use on the poorest member nations.

16.

The EU reiterates its commitment to helping the least developed regions within the European Union. In this spirits the member countries have agreed to shift the focus of these funds from least developed regions in the wealthiest Member States to regions in the less developed Member States. Instead 60%

of these funds going to regions in the wealthiest Member States, a percentage of 35% of the cohesion fund will be distributed to less developed regions in the wealthiest countries and the balance of 65% for financing regions in the least developed Member States. To find an effective definition for the division between less and more developed Member States, the flexible annual GDP per capita of the EU-Area will be used. Every Member State whose GDP per capita is above the average GDP per capita of the European Union is considered to be a more developed Member State, the Member States who fall below the average GDP per capita are considered less developed states. In the group of the more developed countries 50% of the distributions shall be dispensed to the regions with a GDP per capita that is below 65% of the more developed region average GDP per capita. The second 50% of the funds shall be distributed to the regions at a level between 65% and 75% of the average GDP per capita in the more developed region. In the group of the least developed Member States the lowest quintal of regions can apply for 30% of the funds exclusively. The second and the third lowest quintal can apply for another 30% and only the remaining 40% is open to all regions. If in two successive years applications do not use all resources dedicated to that pillar exclusively, half of the unused funds shift automatically to the next highest pillar.

Freedom, Security and Justice

17.

With new conflicts and challenges coming up in the next few years, the matters of Freedom, Security and Justice will be one of the important expenditure sections of the European Budget. More efficient and coherent border policy is needed, especially in the bordering regions in the east and in the south. They will receive more funds for their local border troops and the European Border Fund will be increased.

18.

The Member States see the link between illegal immigration and the situation in developing regions. In order to decrease the need for border control, the Member States agree to support good governance and economic growth in developing regions to deal with the roots of illegal immigration.

19.

The EU recognizes the need for a common immigration policy for the whole region and therefore increases in funding for the European Return Fund, the European Fund for the Integration of Third-Country Nationals and the European Refuge Funds. Furthermore, to alleviate migration patterns the Union will wholeheartedly move towards the implementation of the Mediterranean Union which does not undermine the cohesion of the European Union, and take the appropriate measure in its Common External Policies.

Citizenship

20.

The EU shall support the European feeling of all generations by promoting European ideals in form of literature, art and media; in the context of enlargement, the European Union need to sensitize the citizens for the idea of being European citizens, by offering them a possibility for intercultural dialogue.

21.

The European Council looks to improve the consumer protection in the European Union through increasing cooperation between customer protection authorities.

External Relations

22.

The European Union is one of strongest, most important political and economic powers worldwide. For this reason, it has a strong responsibility towards other countries in the world; it has to contribute prosperity, stability and security beyond its borders.

23.

Pre-Accession

Countries in the accession process shall be supported in institutions building, improving their infrastructure as well as in developing their human resources.

24.

European Neighbourhood Policy (ENP)

With the ENP the EU offers their immediate neighbours a privileged relationship and deeper economic cooperation building upon a mutual commitment to common values. The foundation of the Mediterranean Union shall enlarge Europe's economic market and promote prosperity also to the North African Countries.

Appendix 1

EU CONSOLIDATED BUDGET FROM PERIOD 2014 – 2018

Commitment appropriations	2007-2013	2014-2018[1]
1. Sustainable growth	44.80 %	46.00 %
1a. Competitiveness for growth and employment	8.62 %	9.00 %
1b. Cohesion for growth and employment	35.67 %	37.00 %
2. Preservation and management of natural resources	43.00 %	26.50 %
2a. Of which: Agriculture – market-related expenditure and direct payments	33.90 %	20.00 %
3. Environmental Protection	0.23 %	10.00 %
4. Citizenship, freedom, security and justice	1.25 %	4.20 %
4a. Freedom, security and justice	0.78 %	3.60 %
4b. Citizenship	0.48 %	0.60 %
5. The EU as a global player	5.74 %	7.5 %
6. Administration	5.77 %	5.8 %
Total	**99 %** [2]	**100 %**

1. These numbers are estimates; the EU Council recognizes that transitions periods for the reduction of the C.A.P. will mean that new funds directed towards the Environmental Protection will grow gradually through the budge cycle.

2. During the 2007 to 2013 Budget period 1% of the budge was directed to adjustment fund for Bulgaria and Romania.

Commitment appropriations	2007 - 13	2014 - 18
Sustainable growth	**44,08 %**	**46 %**
Competitiveness for growth and employment	**8,6 %**	**9 %**
Education and training	0,76 %	0,9 %
Research	4,64 %	6,1 %
Competitiveness and innovation	0,3 %	0,4 %
Energy and transport networks	1,44 %	1,4 %
Social policy agenda	0,15 %	0,2 %
Cohesion for growth and employment	**35,6 %**	**37 %**
Convergence	28,12 %	
Regional competitiveness and employment	6,53 %	
Rural development	0,91 %	
Natural resources	**43 %**	**26,5 %**
Agriculture	33,9 %	20 %
Rural development	9,8 %	6,5 %
Environment	**0,23 %**	**10 %**
Freedom, security and justice	**0,8 %**	**3,6 %**
Fundamental rights and justice		
Security and liberties		
Migration flows		
Citizenship	**0,5 %**	**0,6 %**
Culture		
Media		
Public health		
Consumer protection		
EU as a global player	**5,7 %**	**7,5 %**
Pre-accession	1,06 %	
European neighbourhood	1,21 %	
Development cooperation	1,75 %	
Humanitarian aid	0,61 %	
Democracy and human rights	0,076 %	
CFSP	0,23 %	
Stability instrument	0,15 %	
Administration	**5,8 %**	**5,8 %**
Total	**100 %**	**100 %**

Done at Cologne on the third day of May in the year two thousand and eight.

Für den Präsidenten der Bundesrepublik Deutschland

Por Su Majestad el Rey de España

Pour le Président de la République française

Per il Presidente della Repubblica italiana

Voor Hare Majesteit de Koningin der Nederlanden

Za Prezydenta Rzeczypospolitej Polskiej

Pentru Președintele României

Za predsednika Republike Slovenije

För Konungariket Sveriges regering

For Her Majesty the Queen of the United Kingdom of Great Britain and Northern Ireland

Declaration 1

Comment by the Delegation of the Italian Republic

"Italy expresses its disappointment about the fact that with the General Corrective Mechanism the idea of net conbtribution calculation is institutionalised and therefore the idea of European integration is not fostered."

Declaration 2

Comment by the Delegation representing the European Parliament

„The European Parliament (EP) would like to make the following points:

1)

The EP believes that the current resource structure is not in line with article 311 of the Treaty of Lisbon. ("The budget shall be financed wholly from own resources"). Resources based on gross national income are not seen as genuine own resources and must be (partly) replaced by more European instruments with the beginning of the next financial framework.

2)

We are concerned that the recent agreement of the European Council will not lead to a solution regarding the net contribution debates. We therefore urge the Member States to think about instruments that lead to a more common approach as outlined in the comments made by the EP previously.

3)

The EP sees the willingness of all Member States except the United Kingdom to implement a European tax instrument (i.e. there were 9 of 10 Member States in favour of a European Corporation Tax). We believe such tax instruments are crucial for further European integration and we would like to invite the United Kingdom to discuss the issue with us once again."

Declaration 3

Comment by the Delegations of Romania and of the Polish Republic

„Romania and Poland want to support the comment made by Italia concerning the GCM. The Romanian and Polish delegations are very disappointed that the old powers of Europe could preserve its for long already obsolete privileges and neglecting the European idea of sharing the financial support purely on economic strength rather than on any other measure. Especially the chosen indicator on which the new rebate system (GCM) is based on - net contribution - is entirely flawed and undermines the idea of a European Union as a community of solidarity. With the found compromise the new rebate system (GCM) is clearly described as a temporary mechanism which will technically slowly fade out until the end of the budget period. The Romanian and Polish delegations hence appreciate the willingness of the other Member States to come to an undistorted contribution mechanism in the long-run."