EUROPEAN PARLIAMENT

Directorate General Internal Policies of the Union

NOTE

Budgetary Support Unit

Financing the Globalisation Fund

BUDGETARY AFFAIRS

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1. THE LEGAL PROVISIONS

1.1 The IIA on Budgetary discipline and Sound Financial Management

The new IIA of 17 may 2006 lays down the financing provisions of the European Globalisation Fund as follows:

H. European Globalisation Adjustment Fund

Article 28 of the IIA of 17 May 2006:

The Fund may not exceed a maximum annual amount of EUR 500 million (current prices) which can be drawn from any margin existing under the global expenditure ceiling of the previous year, and/or from cancelled commitment appropriations from the previous two years, excluding those related to heading 1B of the financial framework.

The appropriations will be entered in the general budget of the European Union as a provision through the normal budgetary procedure as soon as the Commission has identified the sufficient margins and/or cancelled commitments, in accordance with the second paragraph.

When the conditions for mobilising the Fund, as set out in the relevant basic act are met, the Commission will make a proposal to deploy it. The decision to deploy the Fund will be taken jointly by the two arms of the budgetary authority in accordance with point 3.

At the same time as it presents its proposal for a decision to deploy the Fund, the Commission will initiate a trialogue procedure, if necessary in a simplified form, to secure agreement of the two arms of the budgetary authority on the need to use the Fund and on the amount required and will present to the two arms of the budgetary authority a proposal for a transfer to the relevant budgetary lines

1.2 The Commission proposal [1]

The European Commission approved the Proposal for a Regulation of the European Parliament and the Council establishing the European Globalisation adjustment Fund (EGF) on 1 March 2006. The Commission proposal was presented before the end of the negotiations on the IIA, therefore, some of the provisions contained in the proposal (Amending budget) are not consistent with the final text of the IIA. The Commission will present a revised financial statement accompanied by a technical explanatory sheet on the new procedure. The modifications to the legislative text itself will be made in the context of the legislative procedure.

The EGF aims to provide a European response to help Member States adjusting to the consequences of globalisation and demonstrates the Union's solidarity to workers. The EGF will only intervene at the request of a Member State and each intervention has to be authorised by a specific decision of the Council and European Parliament, acting as Community budget authority. Since the financial contribution is made to the authorities of the Member State, the Member State will be required to present a report justifying the use made of the financial contribution.

[1] European Commission, *Proposal for a Regulation of the Parliament and of the Council, establishing the European Globalisation adjustment Fund,* COM(2006)91 final

The Fund will provide up to EUR 500 million each year to help reintegrate into the labour market workers made redundant due to changing global trade patterns.
The fund of up EUR 500 million per year in current prices will be sourced from EU budget underspends and will come into force as soon as the EGF regulation is in force, but not before 1 January 2007. According to the December 2005 European Council conclusions and in line with the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure adopted on 17 May 2004, the Fund will be financed outside the MFF.

The Commission will propose to allocate the funding:

- through the margin left available under the global ceiling for commitment appropriations of the previous year, i.e. the difference between the total commitment appropriations in the multiannual financial framework and total commitment appropriations entered in the budget of the year *n - 1*;
- through cancelled commitment appropriations of the previous 2 years.

Articles 2, 4, 5, 10, 12 and 13 of the Commission's proposal describe the different operational steps of the awarding procedure between the Member States and the Commission:

Phase	Article	Action
1	2	Intervention criteria
2	4	Type of financial contribution
3	5	Applications
4	10	Determination of financial contribution
5	12.1	Proposal to authorise appropriations corresponding to the amount determined in accordance with Article 10
6	12.3	Decision on a financial contribution
7	13	Payment and use of the financial contribution

1.3 The Financial Regulation

The definition of unspent appropriations with regards the Financial Regulation cover not used appropriations and decommitted appropriations

Not used appropriations:

Article 9.1 states that "appropriations which have not been used at the end of the financial year for which they were entered shall be cancelled."

Decommitted appropriations:

Article 11 states that "amounts are decommitted as a result of total or partial non-implementation of the actions for which they where earmarked, in any financial year after that in which the appropriations were entered in the budget, the appropriations concerned shall be cancelled."

2. THE FINANCIAL MECHANISM

The question of whether the funding of the Globalisation Fund is placed inside or outside the financial framework remains open. For the Globalisation Fund to be used, there need to be underspends. For underspends to occur, there need to be either margins under the ceilings and/or underexecution in the previous year. Theoretically, without margins or underexecution it will be impossible to mobilise the Globalisation Fund.

In this respect the EGF differs from other instruments outside the financial framework (EUSF, Emergency Aid Reserve, flexibility instrument, footnote for pensions) because the utilisation of the latter does not depend on the existence or not of underspends. Another difference is that in the event that all the ceilings were used up each year and with complete execution of the budget, commitment appropriations of the Globalisation Fund could not be added to the annual ceilings, whereas for other instruments outside the framework additional funding (within the ceilings of the IIA) would be possible.

Last but not least, although financing the EGF results in exceeding the ceiling up to by € 500 million per year, it will never result in exceeding the cumulated ceilings over the period because it carries over from one year to another the unused (cancelled) commitments under the ceilings (margin) of the previous years.

This said, as there have always been margins and underexecution of the budget, and because there is not reason to believe that this will change dramatically in the next 7 years, there will probably be enough underspends each year to mobilise the EGF. In this context, the Fund can be assimilated to the other instruments placed outside the financial framework.

Like for the Emergency Aid Reserve, the provisions are made independently from the needs, the aim being to enter the EUR 500 million in the budget (in reserve) as soon as possible. It is not the case of the EUSF whose appropriations are entered into the budget through amending budgets only when needs occur.

A difference should be made between the financing of the EGF (where does the funding come from) and the mobilisation of the EGF (how is the funding made available).

2.1 Where does the funding come from? (scenario 2007)

The December 2005 European Council conclusions mention (point 12) *"that it should be financed through underspends and decommitted funds (defined in commitments)"*.

The provisions of the IIA give a wider interpretation of underspend: margins and/or cancelled commitment appropriations:

- margins existing under the global expenditure ceiling of the previous year (N-1)
- cancelled commitment appropriations excluding from heading 1B from the previous two years (N-2)

However the IIA also does not foresee a compulsory order to use the different sources of funding: margins and/or cancelled commitments. The EP should insist on using the unspent appropriations before the margin. In fact the margin can be used for other needs while unspent appropriations can be used only for this purpose.

a) When presenting the preliminary draft budget for the year N, in April-May (2006) the Commission evaluates the amount of cancelled appropriations for the year N-2 (2005) and enters the full amount available (500 mio.) or part of this amount in title 40 (Reserves), article 40 02 43 *Reserve for the European Globalisation -Adjustment Fund* in the PDB.
As foreseen in the IIA, only commitments are entered in the reserve with a token entry (pm) for payment appropriations.

b) If the cancelled commitments of year N–2 (2005) do not reach € 500 million, in November (2006) and after the last Amending Budget is presented/adopted, the Commission can evaluate the margin left below the global ceiling budget for the year N-1 (2006). The unused margin is defined as the difference between the global ceiling for commitment appropriations set in the financial framework for the year N-1 and the total appropriations for commitments entered in the budget for the year N-1.

The introduction of the amount necessary to reach € 500 million coming from the margin into the specific reserve could be made either through an Amending Letter or via an amendment introduced by Council or by EP during the second reading

Should the sum of cancelled commitments of year N-2 and the margin available of year N-1 be lower than EUR 500 million, the corresponding gap would be entered through an Amending Budget for the year N (2007), once the level of cancelled commitments of year N-1 is known in the consolidated provisional accounts of the year N.

2.2 How is the funding made available?

As laid down in point 28 of the IIA, when the conditions for mobilising the Fund as set out in the legislative act are met (articles 12 and 13), the Commission will make a proposal for a decision to deploy it.

At the same time as it presents its proposal for a decision to deploy the Fund, the Commission calls for a trilogue meeting. The aim of this trialogue is to secure (in a simplified form, i.e. one reading) the agreement of the two arms of the budgetary authority on:
- the need to use the Fund
- the amount required

Together with the proposal for decision, the Commission presents to the two arms of the budgetary authority a proposal for a transfer of the relevant amount of commitment appropriations from the EGF Reserve to the EGF budget line (Title 04 - Employment and social affairs, Chapter 04 05 - 'European Globalisation Adjustment Fund', Article 04.0501).

Transfers related to the Fund will be made in accordance with Article 24(4) of the Financial Regulation. This implies that if one of the arms of the budgetary authority rejects the 'principle' of the transfer, the transfer shall not be made. On the other hand, if the EP and Council reduce the proposed transfer by different amounts, whichever is the smaller of the amounts is deemed approved ('negative co-decision').

As far as payments are concerned, since only commitments have been entered in the Reserve as foreseen by the IIA, the Commission should make a proposal for transfer of payment appropriations within Title 04 or from other Titles (including through the global transfer in November) or via an Amending Budget if the global level of authorised payments is insufficient.

In accordance with the EP Rules of Procedure, two committees should be involved in this procedure: EMPL on the decision to mobilise the Fund and BUDG on the transfer. It would be appropriate that this will be reflected in the composition of the delegation to the trialogue.

3. Concerning the amounts

- as far as the margin is concerned, available appropriations could come mainly from heading 2 In the past Agriculture has presented significant margins (1.6 billion is left in the 2007 PDB)

- as far as unspent appropriations are concerned, the table in annex indicates the amounts of cancelled commitments of the 2005 Budget.

In general, on the basis of the past levels of implementation, cancelled commitments should be sufficient to reach the € 500 million for the EGF, should no margin be left.

ANNEX

Table 1

Cancelled (lapsing) commitment appropriations of the budget 2000-2005*

EUR

		2000	2001	2002	2003	2004	2005**	Total
1	AGRICULTURE	246.537.978	1.841.360.104	1.053.229.479	361.181.235	311.940.803	103.859.109	3.918.108.709
2	STRUCTURAL OPERATIONS	33.127.919	21.124.328	3.024.192	20.411.436	96.657.731	25.577.905	199.923.512
3	INTERNAL POLICIES	129.058.080	153.849.059	143.998.248	137.210.491	200.626.975	205.493.330	970.236.183
4	EXTERNAL POLICIES	187.510.412	44.441.600	43.395.917	32.602.580	48.770.676	37.421.771	394.142.956
5	ADMINISTRATION	69.299.562	46.093.789	33.718.820	28.842.865	129.785.893	98.605.831	406.346.760
6	RESERVES	849.709.500	658.824.000	331.510.000	171.080.000	260.125.000	95.890.000	2.367.138.500
7	PRE-ACCESSION STRATEGY	13.295.588	3.530.407	6.072.741	6.984.970	29.281.124	127.217.312	186.382.143
8	COMPENSATION							
Total		**1.258.539.040**	**2.769.223.288**	**1.614.949.397**	**758.313.577**	**1.077.188.202**	**694.065.258**	**8.442.278.762**

* Difference between commitment appropriations budgeted and actually committed in the course of the budgetary year, excluding transfers and carry-overs to following years
** Provisional annual accounts, Vol. I, table 15