EUROPEAN COMMISSION

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Dear President,

The Commission would like to thank the Bundesrat for its Opinion on the Communication on the Multiannual Financial Framework 2021-2027 and on the related legislative proposals {COM (2018) 321, 322, 324, 325 and 327}.

In the preparation of its proposals, the Commission built on the open and inclusive debate launched in March 2017 with the White Paper on the Future of Europe, and in June 2017 with the Reflection Paper on the Future of EU Finances.

Between 2 May and 14 June 2018, the Commission presented a comprehensive package for the Multiannual Financial Framework 2021-2027, including sectoral legislative proposals for programmes supporting and implementing European policies. The proposals better align the Union budget with the Union's priorities, reinforce the European added value of Union's spending as well as its effectiveness and efficiency.

The Commission believes its proposals are pragmatic and realistic, strongly geared towards the top political priorities agreed by Leaders in Bratislava and Rome on the future of Europe. They show how the European Union can respond in a fair and balanced way to existing and emerging challenges, combining additional efforts with the necessary budgetary rigour and to move our common agenda forward together.

In this context, the Commission welcomes the support from the Bundesrat on a number of important elements of its proposals, in particular as regards the need for enhanced flexibility in the management of European Funds, the financing of new priorities such as Research and Innovation, Space, Connecting Europe Facility and Digital Europe as well as the elimination over time of all rebates.

The Commission also welcomes the general support for a reform of the own resources system. The Commission's legislative proposals aim at modernising and simplifying the existing own resources and at diversifying the sources of revenue. Regarding the own

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resource based on Value Added Tax, the Commission has submitted amendments to the existing system which would drastically reduce the complexity of the calculations whilst safeguarding the stability and resilience of this well-established source of income for the budget of the European Union. Simplification, transparency and fairness are the reasons for proposing to phase out all rebates towards the end of the next Multiannual Financial Framework. The introduction of a generalised correction mechanism would run counter to these objectives as it would rely – similar to the existing UK correction - on biased and flawed net balance indicators.

As regards the sharing of information and comparable data, the Commission has provided an unprecedented level of transparency on the financial implications of its proposals. It has provided from the outset detailed information on the distribution of cohesion and rural development funding per Member State and detailed tables of the budgetary allocations of individual programmes allowing the comparison of the 2021-2027 proposals with those of 2014-2020, in current and constant 2018 prices.

The Commission notes the reservations expressed by the Bundesrat notably on the proposed limited reduction of the funding to traditional policies of the Union.

For the common agricultural policy, with EUR 365 billion for 2021-2027, the proposals provide a strong signal of continued support for the future of farming and rural areas in the European Union. These budgetary developments will affect the measures financed under the European Agricultural Guarantee Fund, including the direct payments to farmers, which are in general reduced by less than 4%. With regard to support for rural development, an increase in the national co-financing rates is proposed, with a view to keeping adequate public support for European rural areas, thereby clearly recognising the important role of support for rural development in the overall common agricultural policy architecture.

In order to foster the climate and environmental delivery, a new green architecture is proposed which is made of common elements (an enhanced conditionality, mandatory eco-schemes in Pillar I and different interventions under Pillar II with mandatory European Agricultural Fund for Rural Development ring-fencing of 30%), while leaving flexibility to Member States for better targeted actions and for transferring budgetary resources to Pillar II in line with their needs.

Better targeting and simplification are at the heart of the common agricultural policy proposals. This will be based on the new 'delivery model' which will streamline actions across both pillars. Member States will have the flexibility to delegate part of the design and implementation of the common agricultural policy Strategic Plan to the regional level, but shall ensure coherence and the consistency with the elements of the Strategic Plan established at national level.

Regarding cohesion policy, it should be noted that in 2014-2020, the German allocation benefited from a safety net for regions formerly classified as less developed. This was worth more than EUR 5 billion for the Eastern Länder. Together with the strong economic performance of the country (in terms of Gross Domestic Product and labour *market), this explains the decrease in funding, which is slightly offset by the addition of an indicator on migration.*

The Commission also notes the Bundesrat's reservations with regard to lower co-financing rates. Co-financing rates were raised in a time of economic crisis to ensure the continuity of investment in regions hit hard by the crisis. A decrease is now being proposed to reflect the improvement of budgetary conditions across the European Union. Member States are consolidating their financial situation. The decrease should also contribute to greater 'ownership' as the part of beneficiaries and should maintain if not increase the overall volume of public investments in key sectors of European importance. It also helps to ensure a cohesion policy for all regions.

The Commission also takes note of the Bundesrat's concerns with regard to the reintroduction of the N+2 rule. The Commission is convinced that N+2 is necessary. The current decommitment rule of N+3 has been damaging for cohesion policy. It has led to an excessively slow programme implementation, which has been heavily criticised. N+2 would certainly contribute to speeding up implementation, especially if it goes hand in hand with lighter and more strategic programming and reporting requirements. The Commission has made several proposals to accelerate programming and ensure continuity across periods.

As regards the coherence between the cohesion policy and the European Semester, the Commission would like to reassure the Bundesrat that the link between the Semester recommendations and the programmes will become more operational: Country-Specific Recommendations will be taken into account in programming at least on two well-defined occasions (at the beginning of the programming and during the mid-term review). Beyond this alignment of the time horizon, the Country-Specific Recommendations will – to the extent possible – have a particular focus on investment needs, so that they can actually be implemented through cohesion policy.

The Commission is convinced that its proposals provide a solid basis for the negotiations to come. It looks forward to a constructive and positive debate on the next Multiannual Financial Framework and would like to thank the Bundesrat for its support for reaching an agreement on this Framework before the 2019 European elections.

The Commission looks forward to continuing the political dialogue with the Bundesrat in the future.

Yours faithfully,

Frans Timmermans
First Vice-President

Günther H. Oettinger
Member of the Commission