



EUROPEAN COMMISSION

Brussels, 22.02.2012
C(2012) 1112 final

Dear President,

Let me thank you for transmitting the opinion of the Latvian Parliament on the European Commission's Communication on the Budget Review {COM(2010) 700 final} and its proposals for the next Multiannual Financial Framework adopted on 29 June 2011. These proposals are for a robust EU budget that matches our ambition and helps Europe to address the many current challenges while also taking account of the current overall economic situation.

I note with pleasure the interest of the Latvian Parliament in the above mentioned Communications and its concerns regarding the future development of an equitable Common Agricultural policy and the maintenance of the existing level of financing for Cohesion Policy.

Regarding agriculture, the Commission in its proposals seeks to keep funding for the Common Agricultural Policy (CAP) stable at 2013 levels and to allocate €281.8 billion for Pillar I (direct payments and market measures) and €89.9 billion for rural development (in 2011 constant prices).

The CAP proposals adopted on October 12th will enable a substantial reform towards a more competitive and sustainable agricultural sector and balanced territorial development throughout the EU, aligned with the Europe 2020 objectives. For instance, some 30% of direct payments should be made conditional on "greening", the level of direct payments will be capped and corresponding amounts reallocated to rural development. Rural development will continue to contribute to specific national and/or regional needs, while reflecting EU priorities, and will be subject to the same performance-based conditionality provisions as the other structural funds. In the post-2013 period, the European Agricultural Rural Development Fund will be included in the common strategic framework for all structural funds and in the Partnership Contracts foreseen with all Member States. By emphasizing the territorial dimension of socio-economic development and combining all available EU funds in a single Contract, the economic development of rural areas across the EU should be well supported in the future.

Ms Solvita ABOLTINA
Speaker of the Parliament
Republic of Latvia
Saeima
11, Jékaba Iela
LV – 1811 RIGA

Overall, the future CAP will contain a greener and more equitably distributed first pillar and a second pillar that is more focussed on competitiveness and innovation, climate change and the environment. The impact will be to shift the agricultural sector significantly in a more sustainable direction, with farmers receiving payments to deliver public goods to EU citizens.

As for your concerns about direct income support distribution, I would like to underline that due to the successive integration of various sectors into the single payment scheme and the ensuing period of adjustment granted to farmers, it has become increasingly difficult to justify the presence of significant individual differences in the level of support per hectare resulting from use of historical references. Direct income support should be more equitably distributed between Member States, by reducing the link to historical references and having regard to the overall context of the Union budget. To ensure a more equal distribution of direct support, while taking account of the differences that still exist in wage levels and input costs, the levels of direct support per hectare should be progressively adjusted. Member States with direct payments below the level of 90 % of the average should close one third of the gap between their current level and this level. This convergence should be financed proportionally by all Member States with direct payments above the Union average. The debate on the next Multiannual Financial Framework for the period starting in 2021 should also focus on the objective of complete convergence through the equal distribution of direct support across the European Union during that period.

Regarding Cohesion policy, the overall share of cohesion in the current MFF is 35%. By applying a strict approach combining nominal stability, a review of allocation among the different categories of regions and the inclusion of the Connecting Europe Facility as part of cohesion policy, the Commission proposes an increased share of the budget – 36.7%. Furthermore, according to the Commission's calculations, the share of the overall cohesion allocation devoted to the 'EU12' Member States would increase from 51 % in the current financial framework to 57 % in the 2014-2020 period.

In the Commission proposals, cohesion policy remains an important expression of solidarity with the poorest and weakest regions of the EU – but it is more than that. One of the greatest successes of the EU has been its capacity to raise living standards for all its citizens. It does this not only by helping poorer Member States and regions to develop and grow but also through its role in their integration in the Single Market. Altogether, the renewed cohesion policy is an essential part of the EU's toolbox to deliver the Europe 2020 strategy.

I note your views on the proposed capping of cohesion policy allocations at 2.5% of GDP. Experience with the current financial framework shows that many Member States have difficulties in absorbing large volumes of EU funds over a limited period of time. Furthermore, the fiscal situation in some Member States has made it more difficult to release funds in order to provide national co-financing. The Commission therefore considers that the current capping system cannot remain unchanged and that the proposed new capping ceiling will better reflect absorption capacity and the overall economic situation of Europe and its Member States. The Commission is aware that the combination of GDP growth estimates up to the 2020 horizon and the capping of cohesion transfers at 2.5% of each Member State's GDP may have different impacts across Member States and will keep this aspect under review so as to contribute to finding the best possible outcome.

Finally, let me thank you again for the opinion of the Latvian Parliament, which will help to enrich the debate on the future financing of the European Union budget.

Yours faithfully,

*Maroš Šefčovič
Vice-President*