

17.12.2010

**Decision**  
of the Bundesrat

---

**Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the national parliaments: the EU Budget Review****COM (2010) 700 final.**

In its 878th session on 17th December 2010, the Bundesrat adopted the following Resolution pursuant to §§ 3 and 5, Act on Cooperation between the Federation and the Federal States in European Union Affairs (EUZBLG):

**I. General comments**

1. The Bundesrat is pleased to see that the Commission has now tabled the Communication on the EU budget review, which was originally scheduled for 2008/2009. The Bundesrat views this as a continuation of the discussion process initiated in 2007 and would therefore like to refer back to the Bundesrat's Opinion on the Commission Communication "Reforming the budget, changing Europe – Consultation Paper on the EU Budget Review (2008/2009)" of 14th March 2008 (BR-Official Document 657/07 (Resolution)). However the Bundesrat finds it regrettable that the Commission has tabled the Communication on the EU Budget Review with a two-year delay, so that it has become available just shortly prior to the start of negotiations on the Multi-annual Financial Framework.
  
2. The Bundesrat is aware of the great importance of the European Union's budget as a manifestation and instrument of successful European integration and solidarity. The EU needs a sound financial basis in order to take action and must be provided with appropriate own resources.

3. The Bundesrat is disappointed that in this Communication the Commission has not fulfilled the mandate from the December 2005 European Council, calling upon the Commission to "... undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, and to report in 2008/9...."<sup>1</sup> Neither the Communication nor the accompanying document are based on a sufficiently comprehensive data set to make this possible. In addition there is no prioritization of the various areas of activity enumerated.
4. The Communication includes essential proposals on improving the focus on results, and enhancing both European added value and the quality of EU budget expenditure. In the light of the strains on all public budgets as a consequence of the economic and financial crisis, the future financial framework should take account of the need for consolidation in national budgets and should be limited to the requisite, factually substantiated amounts. Irrespective of the future structure of own resources, all public monies are ultimately provided directly or indirectly by European taxpayers.
5. The Bundesrat therefore supports the Federal Government's negotiating position, namely that Member States' contributions to the EU must be commensurate with their economic performance. European funding is not required to tackle all European tasks and future challenges. As the public coffers are empty at all levels of the political system, the EU must also practice budgetary rigour. EU funding must only be provided within the ambit of the EU's powers and responsibilities.
6. The Bundesrat supports the Commission's efforts to concentrate expenditure on the EU's political priorities and in particular on implementation of the Europe 2020 Strategy. As the EU budget represents a relative small proportion of EU GDP (roughly one percent), EU expenditure cannot be the main instrument for macroeconomic management and implementation of the Europe 2020 Strategy. Coordination of the economic policy of the Member States and regions and completion of the legal framework at the EU level – always with due respect for Member States' competences – play a more important role.

## II. Priorities for the future Financial Framework

7. The Bundesrat draws attention to the fact that fostering intelligent, sustainable and integrative growth means acting to achieve mutually reinforcing priorities; specific individual aspects cannot simply be allocated to particular expenditure categories in the Financial Framework. In contrast, the new growth strategy contained in the EU 2020 Strategy is a mainstreaming objective, and all EU activities within the existing budgets for various policy areas must make their own specific contribution to attaining this goal. Clarity and transparency about expenditure should be more of a priority than slavishly reflecting political strategies.

### II.1. Innovation and Education

8. The Bundesrat welcomes the steps taken by the Commission on the planned Flagship Initiative on the Innovation Union and would in this context like to draw attention to the Bundesrat Opinion on the Commission Communication "Flagship Initiative of the Europe 2020 Strategy – Innovation Union" of 5th November 2010 (BR-Official Document 616/10 (Resolution)). The Flagship Initiative lays out a fundamentally viable policy approach, defines innovation in suitably broad terms, turns the spotlight on the major challenges facing our societies and takes key technologies into account. The Bundesrat is pleased to note that in the Communication it has tabled the Commission also acknowledges the achievements of the Federal states and regions, and of civil society, and recognizes these as significant political players.
9. However, the Bundesrat draws attention to the fact that there must not be any centralization of innovation policy as a consequence of the Flagship Initiative proposed by the Commission. Innovation policy in the context of the Europe 2020 Strategy involves more than the Flagship Initiative proposed by the Commission. EU funding for research and innovation must therefore not be limited to implementing the Commission's Flagship Initiatives. Innovation policy should continue to be the fruit of decentralized decision-making processes. As innovation happens in the federal states (Länder) and regions, the structures available there should be utilized and their innovative networks should be integrated. The Federal states and regions must have sufficient scope to establish their own priorities for education and innovation policy, parallel to Europe 2020.

10. The Bundesrat underscores the great importance accorded to education, qualification, science, research, technology and innovation in the EU's 2020 Strategy to ensure intelligent, sustainable and integrative growth. In this context, the competences stipulated in the Treaties, in particular in the realm of education, must be rigorously respected. In particular, the Bundesrat draws attention to the fact that education, science and culture as core areas of Federal state sovereignty have an importance beyond purely economic considerations and should therefore not merely be subsumed into economic, social or employment policy. Education means more than simply enhancing one's employability, but must aim to convey values and encourage pupils to develop all aspects of their character.

## II.2. Trans-European Networks, energy and climate policy

11. The Bundesrat considers that overcoming cross-border bottlenecks in strategic transnational axes in transport, communication and energy networks constitutes added value of significant benefit to society, which dovetails with the EU's new growth strategy. In order to encourage the impetus needed for modernisation, the EU should continue to adopt a policy approach that gives precedence to devising guidelines, increasing network interoperability, selecting projects of common interest and drawing up feasibility studies. Steps to develop high-quality infrastructure in line with demand and to overcome critical bottlenecks should be based on the principle of fostering the EU's economic competitiveness and promoting balanced and sustainable development. As part of this approach, hubs, priority strategic and economic connections and intelligent modal links are of particular importance. The existing financing mechanisms in the form of loan guarantees or interest-rate subsidies should be utilised in a targeted fashion, concentrating, within the framework of the agreed ceilings for expenditure, on projects and programmes that will have a clear positive effect for Europe. In the context of its financial support for transport infrastructure, the EU should also contribute to internalising external effects.

12. The Bundesrat is pleased to note that in the reform of the EU budget the Commission has acknowledged environmental protection, climate change and the increasing scarcity of natural resources as long-term challenges and underscores the political importance of climate and energy goals. The Bundesrat considers that it would be advisable when tackling these challenges to refocus the priorities within existing programmes rather than setting up a separate fund. The Commission quite rightly points out that funds could thus be utilised to pursue several objectives simultaneously. The relevant EU programmes and funds from the policy areas of research,

cohesion, agriculture and rural development should be adjusted accordingly. In this context, the Bundesrat draws attention to the fact that measures to help adjust to climate change will be of particular importance in the future.

### II.3. Common Agricultural Policy

13. The Bundesrat is pleased to note that the Commission recognises agriculture as a component of the EU's economy. Agriculture can play a part in attaining the goals of the Europe 2020 Strategy and in creating and securing jobs in rural areas, both by responding to new challenges (climate change, preserving biodiversity, water management, use of renewable energies etc.) and through pursuing the CAP'S original goals (security of supply, food safety etc.). This aspect must play a greater role in the future.
14. The 1st and 2nd pillars of the Common Agricultural Policy (CAP) must function effectively in order to meet the future challenges of dealing with the conflicting priorities involved in reconciling competitive European production of high-quality food with societal demands pertaining to the environment, climate, water-management and biodiversity, as well as conserving crucial rural areas. Within the context of a reformed financing system, appropriate and reliable funding of the CAP must also be guaranteed. In this context the Bundesrat considers that future payments must be structured in terms of public funding for public goods, and that there must be a greater and more tangible focus on benefits that reflect society's aspirations.
15. The Bundesrat draws attention to the fact in the sphere of direct payments Germany will have a strictly regional model with fully decoupled premium payments in 2013. In the first instance the other Member States must continue to progress in moving towards fully decoupled direct payments. The Bundesrat takes the view that there should only be limited harmonisation of direct payments on the basis of the current allocation of such payments. Any such harmonisation should draw on objective criteria that take account of the specific circumstances in the Member States and should be carried out over a fairly lengthy time period.
16. In the second pillar of agricultural policy the Bundesrat advocates a more pronounced focus on environment policy goals and on rural development, to ensure support for innovative production processes and technologies, environmental and climate protection, efficient water management and efficient use of resources, as well as fostering economic diversification in rural areas and

making agriculture and forestry more competitive. The Bundesrat welcomes efforts to give greater impetus to rural development by ensuring policy dovetails more closely with the goals and instruments of the EU Structural Funds and by tapping into synergy effects.

17. The Bundesrat strongly supports the Commission's aim of ensuring that the emphasis should be not solely on efficiency and effectiveness in considering requirements for monitoring systems; instead thought should also be given to the proportionality of the effort expended on monitoring and the benefits obtained. In particular when putting the direct payments system into practice, including cross-compliance provisions, there appears to be scope to reduce the enormous cost of administration and inspections without rendering monitoring less effective. Low monitoring quotas and higher tolerance thresholds play an essential role in this context.

#### II.4. Cohesion policy

18. The Bundesrat takes the view that cohesion policy is one of the most successful instruments for support, rooted in solidarity, for weaker regions and also contributes to creating growth and prosperity across Europe. The Bundesrat welcomes the Commission's emphasis on the continuing need for EU-wide cohesion policy, involving all regions, in order to foster economic, social and territorial cohesion and encourage harmonious development of the European Union as a whole through intelligent, sustainable and integrative growth. In the future too a considerable proportion of EU budgetary funds should therefore be earmarked to fund structural policy activities in the regions.

Affirming the previous Resolutions adopted by the federal states<sup>2</sup>, the Bundesrat emphasises that:

- European cohesion policy must remain a horizontal policy to support sustainable and integrated regional development and to contribute to the Europe 2020 Strategy,
- in the future too the EU's structural policy must ensure it has something to offer to all regions,
- appropriate and fair transitional provisions must be devised for regions that currently receive funding under the "Convergence" Objective but have a per capita GDP of over 75 per cent of the European Union average: the funds to cover this should be provided from the Convergence Objective,

- the structure of cohesion policy with three fundamental objectives has proved its worth and should be maintained,
- steps must be taken in this context to ensure that EU-wide support is provided to promote regional competitiveness and employment in harmony with the demands of sustainability as an integral component of cohesion policy: fostering research, innovation and qualification plays an important role in this context, as do climate change mitigation measures,
- the European Social Fund must be maintained as an indispensable component of an integrated cohesion policy,
- efforts to foster cross-border, transnational and interregional cooperation should be increased,
- attention must continue to be paid to the urban dimension as part of cohesion policy,
- the consistency and complementarity of cohesion policy and European rural development policy should be reinforced,
- coordination of cohesion policy and sectoral EU policy is essential to increase efficiency and harness synergy effects,
- in the interest of subsidiarity and reducing bureaucracy, the administrative and financial monitoring system should be consistently simplified.

19. The Bundesrat draws attention to the fact that detailed comments on the future of EU cohesion policy will be transmitted in a joint Federation-Federal states Opinion on the European Commission's Fifth Cohesion Report.

## II.5. Further EU financing instruments

20. An evaluation must be carried out before a decision is taken on the future of the European Globalisation Fund (EGF).

21. The Bundesrat supports the Commission's plans to combine the European Action programmes to promote culture and civil society engagement in one broad programme. This will enhance clarity and make administration of the programmes simpler.

22. The Bundesrat shares the Commission's view that existing EU programmes on education for lifelong learning make a positive contribution to improving participants' qualifications, knowledge and education. The EU's mobility programmes for general and professional education provide an effective

complement to programmes and measures in the Member States – particularly in the context of the threat of a shortfall in skilled workers (GMK) - and generate a high degree of European added value. Against this backdrop, the Bundesrat has serious reservations about the Commission's announcement that it intends to devise a more integrated concept for the EU's education programmes with a view to promoting the goals of "Youth on the Move". As the Federal states are of the opinion that the Lifelong Learning Programme has proved its worth as an instrument to promote young people's mobility, the Bundesrat therefore advocates that this programme should be continued with its existing basic structure in the context of the next Multi-annual Financial Framework and that changes should only be made in individual sections of the programme. In this context the Bundesrat takes the view that appropriate funding is needed for the programmes for all fields of education.

23. The same applies to European research funding. In the light of the goal of allocating 3 percent of the EU's GDP to research and development, the central elements of the Framework Research Programmes, including in particular the specific "Cooperation" programme, should be continued and developed in the interest of cross-border cooperation between universities and basic research in European clusters.
24. The Bundesrat affirms its commitment to neighbourly solidarity for civil protection. The Monitoring and Information Centre (MIC) is a useful instrument in this policy area and coordinates the capacities of the 27 Member States. The Bundesrat reaffirms that each Member State bears primary responsibility for protecting its own population. The EU should therefore concentrate on coordinating measures in further developing a civil protection network that is able to take action.
25. The European Solidarity Fund is an expression of the way in which the Member States stand by each other. It should be retained and continue to be deployed in unusually severe natural catastrophes. There is no need to change the criteria for awarding funds from this scheme; however thought should be given to the question of whether and how improvements could be made to the ways in which the European Solidarity Fund can be deployed to respond to cross-border losses and damage. Procedures should be made more transparent and more concrete and disbursement of funds should be accelerated.



26. The Bundesrat takes the view that primarily legislative and coordinating measures are required in order to implement the Area of Freedom, Security and Justice. Funds required over and above this should be pooled and expenditure should be effected in the most cost-effective manner.
27. The Bundesrat considers that there is still a need for pre-accession aid. This funding helps to bring accession candidates closer to the European Union. In this context the level of funding must however be proportionate to progress on preparation for accession and prospects for accession. Funding must focus in particular on the priorities of the accession partner, identify concrete goals and include monitoring of achievements.

## II.6. Foreign policy measures

28. The Bundesrat considers that the foreign policy structures created by the Treaty of Lisbon facilitate joint strategic action and flexible deployment of the EU's foreign policy instruments. Europe must take on an appropriate role on the international stage and maintain its leading position in global development cooperation. The EU must have the resources needed to intervene effectively in crises, along with the necessary budgetary flexibility to provide emergency aid rapidly in catastrophes. The Bundesrat supports the Commission's approach of taking European added value and political priorities as the yardstick in considering European foreign policy tasks and agrees that there should be an open and unbiased review of all instruments.
29. The Commission is also correct in noting that the EU's financial contribution to international climate protection should be made more visible. The EU's contribution must reflect the EU's budgetary constraints given the other EU priorities to be pursued. The Bundesrat considers that the funds must be used effectively and efficiently.
30. The Bundesrat supports the European Neighbourhood Policy. The EU will be called on in the future too to show a determination to shape policy with a view to fostering security and prosperity in Europe's environs. Neighbourhood policy must be made still more attractive, effective and credible. The European Neighbourhood and Partnership Instrument (ENPI) must continue to be funded at a level that enables its leverage effect to function. The Bundesrat supports the priorities cited by the Commission, namely free trade, alignment with Single Market legislation, energy, migration, border protection and environmental protection, along with capacity- and institution-building.

### III. Increasing the effectiveness of expenditure policy

31. The Bundesrat welcomes the Commission's announcement that it will take a critical look at its administrative expenditure. The Commission must also be included in efforts to consolidate and must practice strict budgetary discipline. However a reduction in the Commission's administrative expenditure must not lead to the creation of new executive agencies, nor must it mean that the financing burden is shifted to Member States.
32. The Bundesrat advocates examining means of obtaining additional private funding for appropriate projects. In this context new financing instruments or, in appropriate cases, project-related loans could be considered. The only bodies empowered to grant such loans or furnish sureties and guarantees should be the EIB, national state banks, private banks or consortia including the EIB, but not other EU institutions. The ceilings for expenditure and the prohibition on incurring debt must not be watered down.
33. However the Bundesrat draws attention to the fact that the incentive function of cheaper loans is not sufficient in all areas covered by European funding programmes and that subsidies may continue to be necessary in those spheres. If European funding programmes are to be implemented through the European financial institutions, it is important to ensure that the latter cooperate with national and regional funding institutions.
34. The Bundesrat considers that there will continue to be a need for large-scale projects that can only be implemented jointly by the EU as a whole and that make a significant contribution to global competitiveness. However, the Bundesrat notes the explosion of costs in some projects with great concern. Better planning and better management are called for. Involving the private sector in running projects, and in bearing the risk of cost overshoots, can contribute to achieving this kind of improvement, with the caveat that there must be an appropriate balance between costs and benefits.

### IV. Structure and duration of the Financial Frameworks

35. The Commission's proposal to replace the first three headings of the Multi-annual Financial Framework with headings corresponding to the three goals of the EU's 2020 Strategy does not do justice to the interdependence of these

goals. This would create artificial divisions in the existing interrelated and interdependent structure.

36. The Bundesrat sees no reason to reduce the number of headings to three major headings (internal, external and administrative expenditure). A system with a limited number of broad headings would mean a high degree of aggregation within these headings and thus a corresponding loss of information. The broad headings would have to be divided into meaningful sub-categories. This would not contribute to enhancing transparency.
  
37. In the Bundesrat's view there are convincing grounds to continue working with a timeframe of seven years for future Financial Frameworks. This time span has proven successful for the Structural Funds programmes and the EU's other funding programmes and would correspond to the time frame for the current EUROPE 2020 Strategy. Reducing the duration of the Financial Framework would unnecessarily increase the effort expended on reaching an agreement and in administration, and would make planning more uncertain. This disadvantage would outweigh the potential benefits of synchronising the Financial Framework with the terms of office of the Commission and the European Parliament. The Commission's proposal for a ten-year timeframe for the Financial Framework with an extensive Mid-term Review ("5+5") might – depending on the specific arrangements introduced – amount to halving the programme's duration, as the Mid-term Review would be likely to entail extensive and possibly protracted negotiations. With reference to the Structural Funds Programmes, a "5+5" timeframe would only be possible if legal security could be provided, guaranteeing continuity in the substantive underlying structure, the administrative and monitoring systems and core financing for approved Operational Programmes for the entire duration of the programme.
  
38. In the Financial Framework the advantages of an EU budget focused on long-term stability need to be weighed against the advantages of greater flexibility. Additional expenditure should be financed primarily by internal reallocation of funds. Monies not spend should continue to be refunded to the Member States. This would not be compatible with the option of carry-over of non-utilised capacity from the previous year nor with the option to re-allocate funds freely from earlier or later budget years.
  
39. The Bundesrat is pleased to note that the Commission has responded to the criticism that has long been voiced, also by the Bundesrat, and will endeavour to reduce the administrative effort for beneficiaries of European programmes. The sometimes highly complicated procedural provisions constitute a

significant barrier to participation in EU programmes and these provisions should therefore be cast in a more user-friendly form. In the planned standardisation of European implementing provisions, the different initial conditions and general circumstances pertaining to individual policy areas must be duly taken into account. The Commission refers to its recently tabled proposal to amend the Financial Regulation applicable to the general budget of the EU. The Bundesrat takes the view that fundamentally restructuring the system for Structural Funds support once again would not be reasonable. The Bundesrat is of the opinion that the proposal for a Regulation on the Financial Regulation applicable to the general budget of the EU (recast) would give rise to considerable additional administrative costs in particular for fund-financed support and compensatory measures. This would cause uncertainty, considerable additional costs and loss of efficiency due to tension and friction, and would produce new sources of error. The additional monitoring levels and steps in monitoring would mean greater administrative efforts at higher cost. The Bundesrat commented in detail on this issue on 24th September 2010 (BR-Official Document 347/10 (Resolution)).

#### V. Reform of the EU's revenue system

40. The Bundesrat affirms that it expects reform of the EU financial system to build on the system's strengths and remove its current shortcomings. With a view to attaining that goal, the Bundesrat considers that review of revenue and expenditure in the EU budget is essential, along with a more equitable system for sharing the funding burden between Member States.
41. The Bundesrat expects that the financial reform will lead to EU expenditure and revenue being structured in a more transparent and equitable fashion. That means that the Member States' financial contributions to the EU and net returns to the Member States must be proportionate to the relative prosperity of the Member States. In keeping with this, the burden of contributions must be determined by the economic performance of the Member States and that excessive budgetary balances for individual Member States must be avoided.
42. Traditional own resources (particularly customs revenue) must continue to accrue to the EU.
43. The existing prohibition on incurring debt has fully proved its worth and must be maintained.

44. The Bundesrat considers that a general corrective mechanism is needed to benefit all Member States that carry a disproportionate burden due to their net contributions; insofar as this is possible, this general mechanism should make it superfluous to have special provisions to benefit particular states, such as the British rebate. Should it prove impossible to reach agreement on a mechanism of this type, ad hoc mechanisms to compensate for excessive net balances would have to continue to be utilised.

VI. Direct transmission to the Commission

45. The Bundesrat will transmit this Opinion directly to the Commission.