

**24.11.23**

## **Decision**

**of the Bundesrat**

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### **Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: Mid-term Revision of the Multiannual Financial Framework 2021 - 2027**

**COM(2023) 336 final**

In its 1038th session on 24th November 2023, the Bundesrat adopted the following opinion pursuant to §§ 3 and 5, Act on Cooperation between the Federation and the Federal States in European Union Affairs (EUZBLG):

1. The Bundesrat agrees with the European Commission's appraisal that crises in recent years have posed particular challenges for the EU budget. New, significant financial challenges have emerged due in particular to the Russian war of aggression against Ukraine and the associated humanitarian, economic, and financial fallout, the rapid rise in inflation and interest rates, as well as in connection with migration and border management. This is also particularly relevant for the budgets of the Member States, which are under extreme strain as a consequence of the crises and the need for structural transformation.
2. In this context, the Bundesrat underlines that is important to bear in mind that the significant new payment commitments proposed for Member States could make it more difficult to comply with EU stability rules. The Bundesrat considers that only absolutely essential instruments should be introduced as part of the mid-term revision of the Multiannual Financial Framework (MFF) and acknowledges in particular the need to provide assistance to Ukraine.

3. The European Commission proposes establishing an “EURI instrument” with an unlimited volume of funding for repayment of the increased interest costs for NextGenerationEU (NGEU) and setting up a new special instrument “UKR reserve” for non-repayable support to Ukraine, thus enabling significant expenditure that would not be constrained by the MFF ceilings. In this context, the Bundesrat points out that, in accordance with Article 312 TFEU, EU expenditure must be fully reflected in the MFF, meaning that a sound legal basis would be required for these proposals. The Bundesrat is therefore of the opinion that the mid-term revision of the MFF should primarily address practices related to tasks fulfilled and expenditure, prioritisation options for existing headings and titles, and identification of remaining financial leeway through reallocation of funds within the MFF.
4. To this end, the Bundesrat believes that it would be appropriate to create greater flexibility in the EU budget generally. In principle, reallocations can offer a suitable means to take changing general conditions and new challenges in the EU budget into account in financial terms, also by prioritising reallocations rather than requiring Member States to make new funding contributions. The Bundesrat also recalls that borrowing by the European Commission is not, in principle, a permissible means of financing the budget. In the Bundesrat’s view, it is also important to bear in mind the liability risks for the EU budget resulting from financial support provided by the European Union in the form of loans.
5. At the same time, the Bundesrat emphasises that implementation of the proposed measures must not be at the expense of long-term strategic funding programmes. In particular, the Bundesrat rejects reallocation of funds to support other directly managed EU programmes or new initiatives such as the Recovery and Resilience Facility (RRF) if this is to the detriment of the Structural Funds, the Agricultural and Fisheries funds (EAGF, EAFRD and EMFAF) and the Horizon Europe programme, and is likewise opposed to raising national co-financing rates. The Bundesrat also emphasises the need for planning certainty in implementing the Structural Funds and the Agricultural and Fisheries funds. Adjustments to existing programmes would have an impact on planned and ongoing projects. Such effects should be avoided.

6. With a view to the goal of alleviating financial pressure on the MFF, the Bundesrat takes note of the discussion on introducing new own resources. New own resources must be used primarily to repay funds borrowed to finance NGEU and to pay current interest payments. When introducing new own resources, care must be taken to preserve the Member States' fiscal sovereignty, including the rights of the German federal states. It is also crucial to ensure that new own resources categories do not give rise to burdens for the German federal states' budgets.
7. Against the backdrop of the difficult budgetary situation in the German federal states and municipalities, the Bundesrat requests the Federal Government to seek in further negotiations at the European level to limit the burden on national budgets resulting from the proposals in the mid-term revision to a sustainable level.

#### Strategic Technologies for Europe Platform

8. The Bundesrat notes that major economic powers outside Europe are increasingly setting up programmes to subsidise their key industries and promote climate-neutral industries. The Bundesrat once again emphasises the need to formulate an appropriate joint European response to these challenges. The Strategic Technology Platform (STEP) proposed by the European Commission can contribute to this.
9. The Bundesrat welcomes the STEP proposal's objective of placing a strategic focus on critical and new technologies to further advance the digital and green transition in implementing the European Green Deal, as well as maintaining and expanding the European Union's lead in these technologies. The Bundesrat also emphasises the importance of a further objective outlined in the STEP Regulation, which seeks to address the shortage of skilled workers in these technological fields with a view to enhancing long-term industrial competitiveness.
10. The digital and green transition will only succeed if everyone cooperates across the European Union. The Bundesrat therefore calls on the Federal Government to advocate at the European level for measures to ensure that all the STEP platform measures and funding opportunities are available in all EU regions.

11. The Bundesrat notes the crucial importance in the energy sector of ensuring adoption and ramping up of development and production in the field of strategic technologies, in particular for electricity generation using wind and solar power, as well as for conversion, efficiency-enhancing and storage technologies such as batteries and hydrogen electrolysis, with a view to independent implementation of the energy system transformation in Europe. The Bundesrat therefore supports immediate measures to promote development and production of strategic technologies in the energy sector in the European Union.
12. The Bundesrat emphasises the need for the regions to set priorities in pursuing their development and transformation ambitions and to ensure that they can take action or adopt programmes accordingly. Processes and procedures for anchoring the aforementioned technologies should therefore, on the one hand, also be eligible for funding, and should, on the other hand, not be deployed exclusively for climate-neutral energy technologies but also for other sustainable technologies (for example the circular economy, environmental economics, and agriculture).
13. In this context, the Bundesrat takes a fundamentally positive view of extending the funding scope of the ERDF and the Just Transition Fund (JTF) to include critical technologies and commends the associated option of 100 per cent EU co-financing as well as funding for large companies. However, the Bundesrat considers it necessary for all regions, i.e. not only the transition regions but also the more developed regions, to have access to funding for large companies. The spirit and objectives of cohesion policy must be preserved.
14. The Bundesrat emphasises the importance of achieving the Europe-wide STEP objectives, including enhanced European technological sovereignty. At the same time, such a focus helps prevent loss of core industries and key technologies to third countries and minimises the risk of significant carbon leakage (relocation of greenhouse gas-emitting industries).
15. The Bundesrat emphasises that, in addition to STEP projects with companies, projects with research institutions (e.g., universities, non-university research institutions) must also be authorised as funding recipients within the EFRD, even if STEP-specific intervention codes and indicators for research institutions are not included in the European Commission's proposal.

16. The Bundesrat points out that the full impact of the opportunities provided for under STEP can only be fully realised if additional funds are made available under the aegis of the relevant EU cohesion policy funds. The Bundesrat notes that unless additional funds are made available, it will in many cases only be possible to adjust the programmes to fulfil the STEP objectives by reallocating funds, which would entail withdrawing such funds from approved project areas in which implementation is currently underway. That makes it more difficult to implement programmes and attain the objectives set, which is already particularly challenging due to the delayed start of the funding period. Possible adjustment of existing Structural Fund programmes as a result of STEP implementation would have ramifications for current and planned projects. Reprogramming of ESF+ and ERDF would be required and would lead to further delays in implementation.
17. The Bundesrat also advocates including clear definitions in the Regulation concerning the criteria for STEP projects with regard to eligible recipients and technologies, and also calls for programming requirements to be handled pragmatically and reduced to the bare minimum. At the same time, the Bundesrat is in favour of allowing the JTF to support not only clean technologies, but also more fundamental and digital technologies as well as biotechnologies, as these can also help to cushion the effects of transition to a climate-neutral economy in particularly affected regions.
18. The Bundesrat also welcomes the proposed extraordinary one-off advance payment for the JTF amounting to 30 per cent of the JTF allocation. The Bundesrat considers this to be necessary to mitigate the disproportionately pronounced investment pressure on the JTF due to the high annual tranches for 2022 and 2023 as a result of NGEU and is of the view that it should be applicable unconditionally, i.e., irrespective of implementation of STEP priorities.
19. The Bundesrat also welcomes the provisions concerning extension of the completion deadlines for the 2014-2020 funding period, but believes there is a need to extend the last financial year of the 2014-2020 funding period, as otherwise the deadline extensions for the STEP Regulation would not achieve their full effect.
20. Furthermore, the Bundesrat notes that the European Commission's proposal to extend the deadline for submitting programme completion documentation was

submitted at a late stage in the 2014-2020 funding period. In addition, initial negotiations on the STEP proposal have shown that Member States view several elements of the package as being controversial. However, use of flexibility in the programme completion deadlines requires legal certainty, which must be established promptly. The Bundesrat therefore calls for the recast of Regulation (EU) No. 1303/2013 (Common Provisions Regulation) to enter into force as soon as possible.

21. Research and innovation make a decisive contribution to achieving strategic autonomy for the EU and strengthen Europe's competitiveness in the spirit of the European Innovation Agenda. The Bundesrat therefore continues to advocate greater emphasis in the EU budget on promoting research and innovation. Excellence criteria must lie at the centre of this strategy.

#### Importance of and Funding for Cohesion Policy for All Regions

22. The Bundesrat calls unequivocally for cohesion policy to be continued in all regions. Implementation of the European Green Deal and efforts to ensure the transition to a digitalised and climate-neutral economy pose major transformation challenges, particularly for more developed regions and transition regions. All regions must ensure social cohesion and future prosperity by means of innovations, good infrastructure, an intact environment, and by offering conditions that are attractive to businesses. The Bundesrat calls for future structural policy to also include flanking measures and support for all regions to face these challenges.
23. In terms of forward-looking cohesion policy, steps must be taken to ensure regions do not fall behind, giving rise to new regional disparities, particularly as a result of major transformation challenges. All regions, even those which are more developed, are increasingly confronted with social, economic, ecological, and spatial disparities. Special needs such as talent development also exist in regions grappling with demographic challenges.

24. The Bundesrat emphasises that investment and funding needs will continue to grow and that funding therefore needs to be increased for all funds in order to achieve the long-term objectives of cohesion policy after 2027. It is in any event however imperative that the current level of funding, adjusted to reflect inflation, is made available in all regions in the funding period after 2027.
25. The Bundesrat considers that a system of regional categories, differentiated by developmental level, should also be retained after the current 2021-2027 funding period. In the Bundesrat's view, the value of the system of three regional categories has been demonstrated in the current funding period.
26. Regional economic strength based on gross domestic product as a function of purchasing power parities should be the central indicator for allocation of funds. In order to take appropriate account of the regional challenges relating to territorial categorisation in terms of growth potential and to factor in cohesion policy objectives, the option of adding further indicators, yet to be determined, could be considered to enable a more nuanced appraisal that reflects key framework conditions in the regions. For example, the future development of individual regions will be shaped inter alia by challenges related to structural transformation, industry, demographic change, the labour market, migration and transformation processes arising from climate change and digitalisation.
27. In order to relieve the burden on public budgets and still maintain attractive funding options, the Bundesrat believes the EU co-financing rate for more developed regions should again be increased to 50 per cent in the funding period after 2027 and at the same time the EU co-financing rate in transition regions should be increased to 70 per cent.

#### Central Instrument for EU Policy Implementation on the Spot

28. Use of funds for all EU funding instruments must be assessed in the light of the guiding principle of creating European added value. In this respect, the Bundesrat emphasises the particular importance of cohesion policy in combining strategic projects to tackle urgent challenges at the European and global level with long-term development strategies at the regional level, while also ensuring implementation on the spot. That constitutes the often underestimated European added value of this policy.

29. Cohesion policy is the only location-related investment policy specifically geared towards the regional level. As a result, it offers the regions their own location-related options to design measures to address their various transformation (structural) reform needs. The RRF does not constitute an alternative in this context as it does not offer any scope for regional policy design. In the Bundesrat's view, the RRF should therefore not be continued. Alternatively, the Bundesrat recommends examining whether certain RRF measures and elements could be transferred to cohesion policy.
30. Furthermore, the Bundesrat considers it important for cohesion policy to provide comprehensive and targeted support for measures that help strengthen the circular economy. The Bundesrat also takes the view that it would be appropriate to consider, as a general principle, increasing the share of funds allocated to climate action. The thematic focus of the various funds should play a decisive role in this context. Furthermore, the Bundesrat takes note of considerations concerning revision of the measurement methodology to determine the share of funds allocated to climate action in the Structural Funds (known as "tracking climate action") in order to make this instrument more effective.
31. The Bundesrat emphasises that the ESF+ is of substantial importance for strengthening social cohesion and European competitiveness. The ESF+ reinforces social and economic cohesion and competitiveness in the EU and boosts their visibility. It is a key instrument for achieving the EU's core objectives concerning employment, skills, and poverty reduction.
32. The ESF+ is the most important European instrument for promoting employment and social inclusion in Europe. By actively promoting equal opportunities and counteracting discrimination, it seeks to enable many people to shape their own professional future. The principles explicitly emphasised in the ESF+, namely the need to factor in gender equality and equal opportunities from an early stage and consistently throughout programme preparation and implementation, must be maintained in all EU structural funds. In this context, targeted measures should be taken to promote gender equality and equal opportunities. In addition, differing structural and demographic conditions as well as the transformation processes in the various regions should always be taken into account.

33. High demand for skilled labour poses a major challenge for economic and social development. Efforts are therefore required to secure and retain skilled workers, while also tapping into additional skilled labour potential and promoting new skills, particularly in light of the myriad economic transformation processes and demographic change. This applies, for example, to what are known as climate-related and sustainable professions, as well as to social services, the technology fields listed in the STEP Regulation, and other STEM professions. This calls for all existing, accessible potential to be developed, especially women's potential, while also drawing on less accessible potential, for example that of disadvantaged young people, the long-term unemployed, and migrants. The Bundesrat particularly emphasises the prominent role of cohesion policy for innovation in education, research, and development.
34. The resilience of rural areas is a prerequisite for attractive rural living and working conditions and contributes significantly to attaining the EU's environmental and climate-related goals. The Bundesrat therefore advocates establishing a reliable and appropriate financial framework to further reinforce equal living conditions and liveable rural areas. Good coordination of cohesion policy with EU instruments in the area of agriculture and rural development also plays an important role in this context. In addition, there should be greater acknowledgment of the services that agriculture provides for climate change mitigation, nature conservation and preservation of resources, as well as in conserving cultural landscapes, securing clean water, animal welfare and food security, while also bearing in mind the need to ensure income security for agricultural businesses.
35. Sustainable urban development should continue to be supported in future by strategies with integrated measures to overcome the particular challenges in urban areas. This should build on the results of the partnerships established under the aegis of the Urban Agenda for the EU.
36. In view of the transformation process in the transport sector, the Bundesrat in addition advocates continuing to factor in the pronounced need for investment arising from the transport transition within the framework of cohesion policy too. The Bundesrat calls for an examination of how this could be achieved under the ERDF and the JTF. In addition to meeting climate action goals, expanding trans-European networks fosters territorial cohesion, the EU's visibility, and climate-friendly mobility for passengers and goods.

37. The Bundesrat also believes that strict compliance with the rule-of-law mechanism will remain vitally important to ensure continued acceptance by Europe's citizens of EU-funded structural measures in future.

### Simplification of Administrative and Oversight Provisions

38. Cohesion policy is the EU's most visible instrument at the regional and local level. Implementation of cohesion policy adopts a location-related approach, reflecting territorial diversity in the EU, while helping to ensure a strong competitive, sustainable and social foundation, greater local ownership of policies and more participation in the EU, thus also fostering subsidiarity in practice. However, the administrative burden involved in implementing the Structural Funds is still too high.
39. It is vital to ensure low-threshold access by means of harmonised and simplified funding provisions in order to make programmes more attractive to beneficiaries and boost acceptance.
40. Extensive administrative and oversight provisions constitute a particular burden for local actors such as small towns, municipalities, associations, and micro-enterprises. The Bundesrat calls for the burden on these stakeholders to be eased in cohesion policy in future by introducing simplified implementation mechanisms that take particular account of smaller beneficiaries' concerns.
41. The Bundesrat also calls for the n+3 rule to apply again to the ERDF, ESF+, JTF and EAFRD for the entire funding period from 2028.
42. The Bundesrat emphasises the need to ensure that provision of funding instruments is efficient, consistent, and transparent. That means programme set-up and programme architecture must be simplified, for example by adapting the indicators and simplifying budget calculation. Significantly streamlined administrative, oversight and audit provisions would contribute to more efficient implementation of cohesion policy. In this spirit, there is also scope to examine ways to make the cross-cutting environmental principles and instruments more effective and efficient. In addition, if existing provisions are simply rolled over, it would be possible to dispense with a large number of (new) authorisation procedures related to state aid law.

43. Furthermore, timely submission of the adopted Regulations on EU cohesion policy at least one year before the start of the funding period is a key concern. The Bundesrat therefore calls on the EU institutions involved to present an indicative timetable for adoption of the Regulations at an early stage and to ensure the schedule for the decision-making process will allow the legal framework to enter into force in good time before the start of the next funding period. A further delay to the start of funding, as during the current funding period, would jeopardise successful programme implementation.
44. In addition, the Bundesrat recommends that, wherever possible, the content of currently applicable provisions on programme implementation, administration and oversight systems be maintained, while at the same time making the most of all opportunities for simplification. This could significantly streamline time-consuming approval processes at the start of the funding period.
45. Programme set-up must be simplified. It has been shown that including a large number of ancillary aspects and objectives, for an overall programme or each objective within it, makes the approval process more cumbersome without offering any added substantive value and has led to significant delays. Even simply in the interest of subsidiarity, it is crucial to focus once again on those requirements that are directly relevant for successful programme implementation. The Bundesrat is opposed to the introduction of new fundamental requirements or other generalised conditions.
46. As a general rule, state aid law and the corresponding approval procedures should be more closely coordinated.

#### Partnership-based Programming and Implementation Close to Citizens

47. Decisions on use of funds must also be made at the regional level in keeping with the subsidiarity principle. In the Bundesrat's view, the cohesion policy objectives can only be achieved in accordance with decentralised scope for action.

48. Ensuring sufficient involvement at the regional level offers the best results when tackling challenges faced by the regions. Shared management helps ensure appropriate implementation of measures on the spot in the regions, contributes significantly to local identification with the EU, and promotes the EU's visibility in all regions.
49. The Bundesrat therefore advocates maintaining decentralised programme management in the regions for cohesion policy and opposes the introduction of new centrally managed instruments to the detriment of cohesion policy.
50. The goal of "bringing Europe closer to its citizens" must be pursued in future too. The Bundesrat therefore favours support for integrated territorial development, reinforcing the integrated territorial approach, and keeping all options open for local implementation close to citizens. Scope to build on existing instruments for sustainable urban development, as provided for in the 2021-2027 funding period, should be maintained in future. It is important to bring together actors from different sectors (in particular from the worlds of academia and research, regional and local authorities, economic stakeholders and civil society). Local and regional strategies for territorial and integrated development provide strategic orientation. Relationships between geographical areas with different functions, in particular urban-rural relationships, should be strengthened in this context.

#### Strengthening European Territorial Cooperation

51. The Bundesrat reaffirms that European Territorial Cooperation (Interreg) makes a significant contribution to European integration and cohesion, while also promoting good neighbourly relations in Europe and boosting the EU's visibility across national borders.
52. In view of the multiple internal and external crises, along with nationalist tendencies, European cooperation is more important than ever as a fundamental value. The Bundesrat therefore calls for Interreg to be strengthened to secure long-term cohesion within the European Union. Additional investment funds are needed to reinforce the impetus generated by the programmes.

53. The Bundesrat is convinced that Interreg is the right cohesion policy instrument with which to tackle challenges that cut across national borders and require a joint solution. European Territorial Cooperation is extremely symbolic, offers high added value, promotes the European ideal, and creates trust between stakeholders across national borders.
54. Focusing on cross-border, transnational and interregional programmes has been shown to be a viable approach, as has the emphasis on the programmes' geographical dimension, and gives expression to the territorial needs of all participating regions. The Bundesrat therefore advocates retaining the existing territorial scope and tried-and-tested thematic focus, and calls for design and further development of Interreg provisions to draw on existing experience, as well as involving the Member States and the German federal states.
55. European Territorial Cooperation should in future continue to pursue the objectives envisaged in the European Commission's proposal for a "European Cross-Border Mechanism (ECBM)" and the European Commission should draw up a new viable proposal including responses to the criticism from the German federal states (cf. BR-Official Document 230/18 (Resolution)).
56. Interregional cooperation between administrative authorities should be strengthened. The networks of administrative authorities in the macro-regional strategies could serve as a model.

#### A Clear Distinction between Cohesion Policy and Crisis Intervention

57. The Bundesrat takes the view that cohesion policy is not a crisis response instrument even if it has previously demonstrated that it can also offer a flexible reaction to socio-economic crises and respond to needs appropriately thanks to its established structures and procedures. However, cohesion policy should concentrate on its tasks as stipulated in EU Treaty provisions, i.e. strengthening economic, territorial and social cohesion, reducing developmental disparities between the various regions, and supporting investment in employment and growth in all regions. The Bundesrat therefore emphasises the need for a clear distinction to be drawn between cohesion policy and crisis intervention instruments, as well

as providing sufficient funding for both, while ensuring that this is not at the expense of cohesion policy. Sufficient flexibility should nonetheless be guaranteed within cohesion policy in order to support short-term responses if necessary.

Direct Transmittal

58. The Bundesrat shall transmit this opinion directly to the Commission and the European Parliament.