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'A' ITEM NOTE

From: Permanent Representatives Committee (Part 2)
To: Council

Subject: Multiannual Financial Framework (2021-2027) - Report on the progress of work within the Council in the first semester 2018

Delegations will find in annex the report drawn up under the responsibility of the Bulgarian Presidency. This report was submitted to COREPER (Doc. ST 9928/18) and discussed during its meeting of 20 June 2018. The Council is invited to take note of it.

I. INTRODUCTION

1. On 23 February 2018, the European Council held a first informal exchange of views on the future Multiannual Financial Framework (MFF) and the timeline for negotiations. This discussion, together with the thematic debates in the context of the Leaders' agenda, provided political guidance from the highest level ahead of the finalisation of the Commission proposals. Leaders will discuss the future handling of the MFF file, including the timeline, at their next meeting on 29 June 2018.
2. On 9 March 2018, the Bulgarian Presidency hosted in Sofia a high-level and interinstitutional conference focusing on the “Next MFF: distributive, allocative and stabilization functions”.
3. On 2 May 2018, the Commission adopted a package of proposals on the Multiannual Financial Framework for the years 2021 to 2027. The legislative package consisted of:
 - a Council Regulation laying down the Multiannual Financial Framework for the years 2021-2027;
 - an Interinstitutional Agreement on budgetary discipline, cooperation in budgetary matters and on sound financial management;
 - a Council Decision, two Council Regulations, and a Council amending Regulation on the system of Own Resources (OR) of the EU; and
 - a Regulation of the European Parliament and of the Council on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in Member States.
4. This was complemented by a number of sectoral legislative proposals adopted between 29 May and 14 June 2018 as concerns programmes supporting and implementing European policies. All proposals have been allocated to the relevant Council preparatory bodies by the Presidency, in cooperation with the upcoming Presidencies.

II. STATE OF PLAY IN THE COUNCIL

5. The Bulgarian Presidency, in coordination with the future Austrian and Romanian Presidencies, set up an ad-hoc Working Party on the MFF (AHWP MFF) to examine the Commission legislative proposal for an MFF Regulation and prepare the work of the Council on horizontal and financial issues¹.
6. The Commission presented the MFF package to COREPER on 2 May 2018, the General Affairs Council on 14 May 2018 and the AHWP MFF on 16 May 2018.
7. Since then, considerable efforts have been put into advancing the delegations' understanding of the proposals and their horizontal and financial implications.
8. In the course of six meetings of the AHWP MFF held between 16 May and 18 June, the Commission gave detailed presentations of its proposals on the MFF package as well as its sectoral proposals associated with, inter alia, Cohesion and Values (Heading II) and Natural Resources and Environment (Heading III). This gave delegations the opportunity to ask for clarifications and provide initial reactions, bearing in mind that the detailed analysis of the proposals is still ongoing. The Commission provided additional information and clarifications both orally and in a number of technical fiches at the request of delegations. The Presidency also organised on 11 June 2018 in close cooperation with the Commission a technical seminar on the allocation methodology of the national envelopes under the cohesion policy.
9. In addition to the work carried out in the AHWP MFF, sectoral working parties started discussing the technical aspects of the sectoral proposals. In particular, the Own Resources Working Party dedicated two meetings to examining the Commission proposals on Own Resources.

¹ doc. ST 7828/18; ST 7829/18 and 10094/18

10. On the basis of discussions in the AHWP MFF and the questions raised by delegations, the Presidency prepared the present progress report. The objective is to inform Ministers of the overall state of play at this stage of the examination and to draw attention to issues preliminarily identified during the discussions at technical level.

Duration

11. Delegations overall agreed with the Commission's approach and supported the proposed duration of seven years for the next MFF. A number of delegations did not see the need for a mid-term review, some advocated a postponement of the date of the proposed mid-term review.

Structure

12. There was a broad understanding of the new structure proposed by the Commission and delegations overall welcomed the closer alignment and visibility it gives to EU priorities including those identified by Leaders.
13. The streamlining from 58 to 37 programmes was also welcomed, even though delegations found it difficult at times to compare current programmes and future ones.
14. There were however different views on a number of elements, such as:
 - the splitting of cohesion policy instruments into different clusters and the shift from a sub-heading to a sub-ceiling for cohesion policy;
 - the possibility of shifting resources from shared management to direct or indirect management in some programmes;
 - the consolidation of external instruments, with some delegations considering this could be to the detriment of the neighbourhood policy;
 - the proposed inclusion of the European Development Fund in the budget;
 - the importance of obtaining further details on Heading VII (Administration) and on compiling administrative expenditure of other headings;

- the number and size of instruments currently outside of the MFF; and
- the treatment of all special instruments within or above the ceilings of the MFF in both commitments and payments.

Size, amounts and allocation criteria

15. Delegations took the opportunity of the analytical phase to share preliminary and diverging views on the size and amounts of the proposed MFF and presented policies.
16. At this stage, different views were expressed on the size, the priorities, including the balance between the cohesion and agricultural policies and other policies, and the allocation criteria.
17. While recognising the need for modernising cohesion and agricultural policies, some delegations were seeking guarantees that the proposed changes would not adversely affect the less developed regions and Member States as well as rural communities across the Union.
18. Moreover, various views were expressed on the proposed higher national co-financing rates for cohesion and agricultural policies, the proposed thematic concentration and its modalities and the proposed return to n+2 decommitment rules. As concerns the agricultural policy, the convergence and capping of direct payments as well as the new delivery model were also subject to debate.

Flexibility

19. While all delegations supported the idea of a more flexible budget, some questioned the increased flexibility of transferring resources between programmes, the substantially higher margins and the increased amounts allocated to special instruments.
20. A number of delegations were critical of the suggestion to reuse decommitments for the proposed Union reserve.

Own Resources

21. Proposals for a simplified VAT-based Own Resource, an ETS-based Own Resource and a plastic-based Own Resource were discussed in more details, with delegations expressing a variety of positions and asking for additional data to facilitate the analysis of possible effects on annual contributions per Member State per new Own Resource.

Other issues

22. Many questions were raised on the proposed conditionalities attached to the use of EU funds, on the issue of constant versus current prices and on the inflation deflator.

III. COOPERATION WITH THE EUROPEAN PARLIAMENT

23. The Bulgarian Presidency, in cooperation with the future Austrian and Romanian Presidencies, is committed to conducting work on the MFF in a spirit of openness and constructive cooperation with the European Parliament (EP).
24. To that end, Prime Minister Borissov addressed to EP President Tajani on behalf of the Bulgarian Presidency as well as the future Austrian and Romanian Presidencies a letter detailing cooperation modalities for future work on the MFF. In particular, the Presidencies proposed to organize exchanges of views with representatives of the EP before and after each General Affairs Council meeting when the MFF is on its agenda, so that each institution fully understands the position of the other.
25. The Presidencies will also ensure that Council documents submitted to the General Affairs Council or to the European Council will be handed over to the European Parliament to ensure optimal information.