Council of the European Union
General Secretariat

Brussels, 12 June 2020

WK 6255/2020 INIT

LIMITE

CADREFIN
RESPR
POLGEN
FIN

WORKING PAPER

This is a paper intended for a specific community of recipients. Handling and further distribution are under the sole responsibility of community members.

MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Ad hoc Working Party on the Multiannual Financial Framework (MFF) 2021-2027
Subject:	Multiannual Financial Framework (MFF) 2021-2027 and Recovery package - Follow-up to questions raised by Member States (Fiche no. 72)

Delegations will find attached the above-mentioned document from the Commission.

EUROPEAN COMMISSION

Multiannual Financial Framework 2021-2027

Fiche No. 72

12 June 2020

WORKING DOCUMENT OF THE COMMISSION SERVICES

Subject: Follow-up to questions raised by Member States

This document is intended as an overview of answers to written questions on the May 2020 recovery package submitted by Member States in the context of the Ad-Hoc Working Group on the Multiannual Financial Framework.

For the purpose of this overview, submitted questions have been shortened, simplified and regrouped wherever relevant in order to keep the length of this fiche reasonable. Answers have for the same reason been kept concise.

This document will be followed on 15 June by another fiche addressing remaining questions. It summarises or complements information already or yet to be provided in the context of the Ad-Hoc Work Group on the Multiannual Financial Framework, the Working Party on Own Resources and sectoral Working Parties, without prevailing over such information.

DISCLAIMER

This non-paper has not been adopted or endorsed by the European Commission. Any views expressed are the preliminary views of the Commission services and may not in any circumstances be regarded as stating an official position of the Commission. The information transmitted is intended only for the entity to which it is addressed for discussions and may contain confidential and/or privileged material.

Table of Contents

1. Horizontal questions

1.1 Macro-economic assumptions

- **Can the Commission elaborate on its macro-economic assumptions? (FR)**

Answer

– Whenever relevant, the Commission has used the results of the Spring 2020 economic forecast.

– As regards the ceilings of the Multiannual Financial Framework, those are set as absolute amounts and remain independent of changes in the economic forecasts.

– The data validated by the Advisory Committee on Own Resources is taken into account in the preparation of the Draft Budget proposal for 2021.

– The pandemic has drastically changed the outlook for the European economy. The Commission spring 2020 forecast expects the EU economy to contract by a record 7.5% this year, followed by a rebound of 6.1% in 2021 – not enough to fully make up for this year's loss. At the end of the forecast horizon, the EU economy would be about 3% lower than the output level projected by the autumn forecast 2019. The pandemic's economic implications are analysed in detail in the Commission's needs assessment[1].

[1] SWD(2020) 98.

1.2 Comparison of envelopes and architecture

- **MFF 2014-2020: Can the Commission elaborate on the increases for the current MFF 2014-2020? (IT)**

Answer

– Draft Amending Budget (DAB) No 6 for the year 2020 complements the proposal to revise the Multiannual Financial Framework Regulation for 20202. It provides EUR 11 540,0 million in commitment appropriations and EUR 6 540,0 million in payment appropriations to reflect the impact of the legislative proposals adopted by the Commission on 27, 28 and 29 May in the framework of the European Union economic recovery package3. The amount in commitments corresponds to the proposed increase of the MFF 2014-2020 commitment ceilings, with detailed amounts per instrument.

- **2021-2027 BASELINE MFF: Can the Commission elaborate on the increases for the MFF 2021-2027? (LT, HU, AT)**

Answer

– In addition to the budgetary reinforcements financed under Next Generation EU, it is imperative to strengthen other programmes to allow them to play their full role in making the Union more resilient and in addressing challenges that have been heightened by the pandemic and its consequences. The Commission's proposal of 27 May 2020 incorporates targeted adjustments of its 2018 proposal, taking into account the progress of the negotiation so far, the proposed Just Transition Mechanism as well as reinforcements tailored to building the Union's resilience and strategic autonomy in the medium- and longer-term. These include:

  - Digital Europe Programme: Boosting the Union's cyber-defences and supporting the digital transition;

  - Connecting Europe Facility: Investing in an up-to-date, high-performance transport infrastructure to facilitate cross-border connections, such as Rail Baltica;

[2] COM(2020) 446.

[3] COM(2020) 456.

- Single Market Programme and the programmes for cooperation in the fields of taxation and customs: Creating the conditions for a well-functioning single market driven recovery;

- Erasmus Plus and Creative Europe: Investing in young people as well as in the cultural and creative sectors;

- Common Agricultural Policy and the European Maritime and Fisheries Fund: Strengthening the resilience of the agri-food and fisheries sectors and providing the necessary scope for crisis management;

- Asylum and Migration Fund and Integrated Border Management Fund: Stepping up cooperation on external border protection and migration and asylum policy;

- Internal Security Fund and European Defence Fund: Ensuring strong support for European strategic autonomy and security;

- Pre-accession assistance: Supporting partners in the Western Balkans.

– The amounts for each individual programme are presented broken down per year in an Annex to the Commission Communication 'The EU budget powering the recovery plan for Europe' of 27 May 2020[4] in a similar and comparable format to the annex of the 2018 Commission Communication on the 2021-2027 MFF proposal. The proposal of 27 May 2020 also puts forward an annual level of the MFF payment ceiling in line with the adjustment in commitment appropriations.

- **Can the Commission elaborate on proposed changes for other programmes and for the programme-internal repartition within funds under the MFF 2021-2027? (BG, FR, FI**

Answer

– The Multiannual Financial Framework for 2021-2027 proposed by the Commission in 2018, as reinforced by the Just Transition Mechanism and the changes proposed through the recovery package, remains the essential point of reference for the final phase of negotiations.

[4] COM(2020) 442.

- The revised MFF proposal builds on the considerable progress that has already been made in the European Parliament and the Council to create the best possible conditions for a timely agreement.

- The proposal for a revamped MFF does in principle not change the internal distribution of funds within instruments.

1.3 Payment profile, RAL ("*reste à liquider*") and co-financing

- **Can the Commission elaborate on payments, RAL and co-financing? (DE, FR, SE, PL)**

Answer

- As required under the Financial Regulation, the Commission will present an updated long-term forecast on payment needs under the different MFF headings. It will provide the latest information on the expectations on RAL and related payments, taking into account the results of the Draft Budget 2021 preparation.

- As regards payments in relation to the external assigned revenue stemming from the Next Generation EU instrument, a breakdown by year and expenditure type is annexed to each individual spending programme receiving such funds in the relevant Legislative Financial Statement.

- **Can the Commission elaborate on its assumptions regarding additional payment needs arising from CRII plus, "regular" cohesion policy and centrally managed programmes and their impact on the payment ceiling? (PL)**

- The Commission is currently preparing the annual Forecast Report of Future Inflows and Outflows for the period 2021-2025. The above elements are being taken into account in the preparation of the forecast and will be addressed in the Report, where relevant.

1.4 Agencies

- **Can the Commission elaborate on what is envisaged as regards decentralised agencies? (FR, FI)**

Answer

- The Commission has provided additional information on decentralised agencies with Fiche 68.

1.5 Climate mainstreaming

- **Can the Commission elaborate on how the funds will contribute to the climate mainstreaming target of at least 25%? (DK, DE, FR, PL, FI, SE)**

– This question will be addressed in a separate fiche to issue shortly.

- **What are the focus areas or priorities in financing transition to a circular economy? (FI)**

Answer

– The Commission's circular economy action plan adopted on 11 March 2020 focuses on the sectors that use most resources and where the potential for circularity is high such as: electronics and ICT; batteries and vehicles; packaging; plastics; textiles; construction and buildings; food; water and nutrients. In the action plan, the Commission pledges to harness the potential of EU financing instruments and funds to support the necessary investments at regional level and ensure that all regions benefit from the transition. Due to the wide scope of the transition towards a circular economy any list of priorities can by design not be exhaustive and will have to be re-evaluated on a needs-basis.

- **Can the Commission elaborate on what is foreseen to support the renovation wave? (FI)**

Answer

– The Commission work programme 2020 announced that the Commission will put forward a Strategy for Smart Sector Integration and a Renovation Wave in accordance with the Sustainable Europe Investment Plan. This strategy and its renovation wave initiative are currently in the roadmap phase. Following this, the public consultation will start.

1.6 Fiches

- **Can the Commission elaborate which fiches it intends to update? (FR, DE, LU, NL, PL, SK, SE)**

Answer

– The Commission is currently working on updating those fiches for which the proposals of 27 May 2020 would imply substantial changes. A number of new and updated fiches have already been provided.

2. <u>Heading-specific questions</u>

– Heading-specific questions will be addressed in a separate fiche to issue shortly.

3. Instruments outside the Multiannual Financial Framework

3.1 Special Instruments

- **The updated MFF 2021-2027 has European Union Solidarity Fund (EUSF) and Solidarity and Emergency Aid Reserve (SEAR). While in the initial COM proposal there were - EUSF and EAR, but in NegBox EUSF and EAR were merged in SEAR. Did the Commission took the title from PEC NegBox but the logic of the instrument stayed from the initial EAR? (LV)**

- **Could the Commission elaborate on the overall architecture of the flexibility and emergency instruments (which instruments and their financing)? Why, for example, to propose both the SEAR and the Solidarity Fund? Could the Commission also explain more the reasoning behind such a substantial increase of funding for special instruments? (FI)**

Answer

– In its amended proposal for the 2021-2027 Multiannual Financial Framework Regulation[5], the Commission maintains the architecture of separate thematic and non-thematic special instruments and their respective functioning as proposed in 2018, and as defined in articles 9 to 14 of the draft MFF Regulation: European Globalisation Adjustment Fund (EGF, Article 9) European Union Solidarity Fund (EUSF, Article 10), Emergency Aid Reserve (re-named Solidarity and Emergency Aid Reserve – SEAR – Article 11), Global Margin for Commitments (Union reserve) (Article 12), Flexibility Instrument (Article 13) and, as a last resort, the Contingency Margin (Article 14). The Global Margin for Payments, which is not a special instrument as it does not require mobilisation of amounts 'over and above' the MFF ceilings, is also maintained in Article 5 of the proposed MFF Regulation as amended.

– Commission services have provided ample explanations throughout the negotiations since 2018, including in several dedicated discussions of the Ad Hoc Working Group (22 May 2018, 1 June 2018, 22 February 2019, 20 March 2019, 22 May 2019 9 July 2019 and 11 October 2019), of the rationale and specific features of each special instrument,

[5] COM(2020)443

including the absence of overlap between such instruments and between the instruments and sectoral programmes.

- As regards the difference between the EU Solidarity Fund and the Solidarity and Emergency Aid Reserve the Commission recalls the essential difference between the two instruments:

    - The Solidarity and Emergency Aid Reserve is specifically devised to bring swift budgetary reinforcements to enable EU programmes to address emergencies and crises. It is entered in the budget as a provision. It can be mobilised at short notice to complement the appropriations of specific programmes which provide for emergency action (such as - non-exhaustive list - Humanitarian Aid, Civil Protection/rescEU, the Single Market Programme (with its emergency veterinary and phytosanitary measures), the new EU4Health programme or the Asylum and Migration Fund) within a few weeks by way of a budget transfer in accordance with the Financial Regulation (Article 32(2)).

    - The EU Solidarity Fund provides ex-post financial assistance to EU Member States affected by major disasters. Its financial contribution supplements Member States' or candidate countries' own public expenditure to help restore essential infrastructure, assist the population by providing temporary accommodation and funding national rescue services, secure preventive infrastructure and measures of protection of cultural heritage as well as help cleaning up disaster-stricken areas, including natural zones. It is an expression of Union solidarity, recognising that when a Member State's public finances are under strain due to a major catastrophe, others are ready to support it in carrying at least part of the associated expenditures, thereby aiding post-crisis relief and restructuring efforts.

- In its amended proposal for the 2021-2027 Multiannual Financial Framework Regulation, the Commission is proposing to increase the maximum annual amounts of the three 'thematic' special instruments, on the basis of lessons learned from the COVID-19 pandemic and its consequences:

    - The maximum annual amount for the European Globalisation adjustment Fund is increased to EUR 386 million (in 2018 prices), to reflect the extended scope of the instrument as proposed by the Commission in 2018[6] and taking into account the state of play of inter institutional negotiations on the proposal[7], in particular the extended scope of restructuring events covered and the lower the threshold for activation of the Fund (from 500 redundancies to 250 redundancies). The maximum annual ceiling of the Fund should also be increased to a level commensurate with a highly likely increase in the number of applications in the next months / years due to the economic and social effects of the COVID Crisis.

- The maximum annual amount for the EU Solidarity Fund is increase to EUR 1 000 million (2018 prices). This is necessary to reflect the extension of scope of the Fund adopted by the European Parliament and the Council on 30 March 2020[8], which is not temporary. In addition, the EUSF also supports recovery following natural disasters such as earthquakes, or climate change related exceptional natural disasters such as floods, forest fires, storms and drought, which are unfortunately expected to continue and even increase in magnitude in the coming years.

- The maximum annual amount for the Solidarity and Emergency Aid Reserve is increased to EUR 3 000 million (2018 prices). This is necessary to increase the responsiveness of the EU budget under unstable geopolitical and domestic conditions which may require swift and substantial additional financing to address crises within and outside the EU. In the first months of 2020 alone, the EU mobilised EUR 3 billion additional funding to address the COVID-crisis (re-activation of the Emergency Support Instrument, reinforcement of rescEU). This was done through the activation of non-thematic special instruments (Global Margin for Commitment, Flexibility Instrument, and as a last resort Contingency Margin), but more or less exhausted all flexibilities available in 2020. Had the Emergency Aid Reserve as proposed by the Commission for 2021-2027 been available in 2020, it would have further enhanced the EU's capacity to respond to COVID-19, as it includes fast availability of additional funds in answer to crises (including health) within the EU.

[6] COM(2018)380.

[7] Council Partial general approach of 15 March 2019 (document 7624/19), European Parliament position at first reading of 16 January 2019 (P8_TA-PROV(2019)0019).

[8] Regulation (EU) 2020/461 461ofof 30 March 2020 (OJ L 99, 31.3.2020, p. 9).

3.2 European Peace Facility

- **Can the Commmission elaborate on what its proposal entails for the European Peace Facility? (FR, LV)**

Answer

– The 2018 proposals for the European Peace Facility remains the essential point of reference for the Commission. However, it takes due note of the progress in the negotiations so far.

4. Next Generation EU

- **Can the Commission elaborate on the timing of the interventions and payments? (DE, EE, LT)**

Answer

– Next Generation EU is an exceptional and temporary instrument to address the investment needs in the immediate aftermath of the COVID-pandemic. This is why the support under this instrument is limited in time and frontloaded. However, programmes to support public and private investment need time to be rolled out, for example due to multi-year planning processes. In addition, calls on guarantees provided to support private investment only occur over time.

– The Commission is therefore proposing a timeframe until 2024 for the commitment to be made, for lending decisions to be taken or for financial operations to be approved. By end-2024, all commitments will therefore be made and more than 70 percent of the borrowing will be completed.

– Next Generation EU supports a number of programmes and provides different types of support. It sets the following horizontal rules with regard to the time limitations:

    - Legal commitments for the provision of non-repayable support need to be entered into by end-2024, with at least 60 percent of the aggregate of such commitments across all supported programmes made by end-2022.

    - Decisions for the granting of loans need to be adopted by end-2024.

    - Financial operations supported by budgetary guarantees for which the provisioning is provided by Next Generation EU have to be approved by the implementing partners by end-2024. An aggregate amount of 60 percent of these guarantees need to be approved by end-2022.

– These horizontal rules apply to the point when legal commitments for non-repayable support have to be made, decisions for loans are adopted or financial operations supported by a budgetary guarantee approved. The related payments may follow these decisions with some delay depending on the specificities of the respective programme and type of support.

– The above rules do apply only to support that is provided by Next Generation EU.

- **Can the Commission elaborate on the assumptions behind the interest payments planned over 2021-2027, and what are expected repayment profiles from 2028-2058? (DE, DK, IE, FR, HU, PL, SE, SK)**

Answer

– Please see fiche n° 66 of 8 June 2020 on interest cost projections for borrowing related to Next Generation EU under the financial framework in the period 2021-2027.

- **Can the Commission indicate how long the Commission would be borrowing for the provisioning from the markets? (EE)**

Answer

– Calls by implementing partners related to budgetary guarantees will be honoured from the provisioning put aside in the Common Provisioning Fund. The borrowing related to the provisioning will happen within the defined timeframe and will be kept in the Common Provisioning Fund until the calls are made.

- **Can the Commission elaborate on what would happen if at some point a Member State would not a) make their loan repayment for a loan taken under the Recovery and Resilience facility in a timely way or b) make their payment necessary into the EU budget as required in a timely way (for whatever reason, including force majeure)? (EE)**

Answer

– The failure by a Member State to honour its financial obligations towards the Union, under a loan agreement or in the context of its budget contributions, would constitute a grave disturbance of its relations with the Union. Such an event has never occurred and the Commission is convinced that it will not happen in the future.

– If there is ever the case of such a difficulty of a Member States to honour its obligation on time, the Union would need to call additional means from Member States to ensure that the Union can fulfil its obligations towards its investors.

– This is why the empowerment to borrow in the Own Resources Decision will need to be complemented with an increase in the own resources ceiling to provide sufficient assurance that the Union can fulfil its obligations under any circumstances.

– For that reason, the Commission has proposed an additional temporary increase in the own resources ceiling to create additional headroom as long as the Union has outstanding liabilities. This additional headroom would provide the needed assurance that the Union can mobilise additional resources from Member States in case of need to fully adhere to its contractual obligations towards investors.

- **When the Commission refers to 7.5% of the maximum amount for repayments – does it refer to the percentage from 500 bn EUR or from 750 bn EUR? (LT)**

Answer

– The relative provision in the proposed Own Resources Decision refers to the amount of EUR 500bn.

- **Can the Commission elaborate on what extent the EIB will be involved in the operations linked to the revamped MFF and the proposed Next Generation EU? (LU)**

Answer

– Particularly the guarantee instruments supported by Next Generation EU (InvestEU and the Solvency Support Instrument) will require close collaboration with the EIB/EIF. This builds on the existing close cooperation with the EIB/EIF in guarantee programmes and will need to be reinforced.

- **Can the Commission elaborate on the increase of contingent liabilities for Member States under Next Generation EU? (LU)**

Answer

– The main source of contingent liabilities under Next Generation EU would come from loans provided under the Recovery and Resilience Facility. While the repayment obligation for such loans lies with the beneficiary Member States, the Union would need to step in in the unlikely case of a failure to pay by a beneficiary Member State. Other possible sources of contingent liabilities, such as budgetary guarantees or loans to third countries supported by Next Generation EU are adequately addressed by the related provisioning.

- **How is the proposed Recovery Instrument reconcilable with the statement that EU borrowing is only permitted to finance loans to countries given that it is proposed to finance non-repayable grants with debt issued by the EU? (AT)**

Answer

– The Treaties do not prohibit the Union from taking liabilities. Borrowing used for crisis spending is a new type of a liability operation.

- The Union expenditure created by the Next Generation EU complies with the principle of budgetary discipline (Articles 310(4), 323 TFEU). The liability is fully covered by the temporary increase in the own resources ceiling, as proposed by the Commission.

- The principle of budgetary balance (Article 310(1), 3rd sub-paragraph, TFEU) requires equilibrium between revenue and expenditure of the annual budget. The borrowed funds are exceptional and one-off amounts coming in addition to the appropriations authorised in the annual budget, as external assigned revenue, they do not form part neither of revenue nor of expenditure under the annual budget.

- **Given that the Recovery Instrument is based on Art. 122 that allows for targeted and timely limited help to MS in 'exceptional occurrences beyond its control', why does the Commission propose to only pay 30% of funding of the Recovery Instrument until 2022? (AT)**

Answer

- Next Generation EU provides that the relevant spending decisions are made in a frontloaded manner with more than 60 percent of the legal commitments for non-repayable support and the approval of financial operations supported by budgetary guarantees by 2022. All decisions on support from Next Generation EU need to be made by end-2024. Given that payments usually exhibit some delay to the Union's legal commitment, e.g. due to ex-post cost claims or the long duration of capital calls resulting from guaranteed investment portfolios, some payments will only be made after 2024. However, the Commission estimates that more than 70 percent of payments will be made by 2024.

- **Art. 122 only speaks of 'Union financial assistance to the Member State concerned' – how is this compatible with the Commission proposing grants for programs in direct management that favour final beneficiaries and not 'Member States' or grants that go to third countries (Humanitarian Aid)? (AT)**

Answer

- The proposed legal basis of Next Generation EU is Article 122 TFEU. Article 122(1) TFEU allows the Union to adopt 'measures appropriate to the economic situation'. The legal base of Next Generation EU covers therefore different forms of support that can be provided in a spirit of solidarity between Member States. Such measures need to be appropriate, limited in time and targeted towards the specific economic situation it is addressing. Another example of measures adopted under that legal basis is the Emergency Support Instrument (Regulation 2016/369, as last amended by Regulation 2020/521).

- **Why does the Commission propose to take on debt in order to finance administrative expenditure? (AT, PL)**

<u>Answer</u>

– Article 3(2) of Next Generation EU does not foresee a particular amount of the borrowed funds to be allocated to administrative expenditures. Expenditure under the programmes may include technical and administrative assistance in accordance with the standard rules of the programmes.

- **Can the Commission elaborate how much of the 750 bn in 2018 prices could potentially be repayable? (AT)**

<u>Answer</u>

– One third of the amount will be spent on loans which are per se repayable.

– A small part of the envelope under Art 3(2)(a) of Next Generation EU will be used for financial instruments under some of the receiving instruments (e.g. European Innovation Council under Horizon Europe, financial instruments under cohesion programmes). Such financial instruments require a provisioning of 100 percent, which reflects the risk expectations.

– The funds specified in Art 3(2)(c) of Next Generation EU are to be used for the provisioning for budgetary guarantees for which the provisioning levels are set below 100 percent. Such provisioning levels are determined in the relevant legal acts and reflect the estimated need for capital to absorb possible guarantee calls. There is no ex-ante expectation of a reflow of these provisioning amounts apart from limited amounts from remuneration.

- **The use of Article 122 allows for financial assistance only 'under certain conditions'. Could the Commission please list these conditionalities for each of the programs proposed for funding under the Recovery Instrument and for the administrative expenditure? (AT)**

<u>Answer</u>

– Next Generation EU will provide its support through the different Union programmes, which all have their specific policy objectives, conditions and procedures. Information on these conditions are publicly available in the respective underlying legal acts. These acts comprise detailed legislative financial statements, which indicate the projected administrative costs for their implementation.

- **How can the short-term nature of Article 122 (Recovery Instrument) and long-term nature of Article 175 (Recovery and Resilience Facility) be compatible? (AT)**

Answer

– Next Generation EU will channel external assigned revenues to the Recovery and Resilience Facility with a view to address the heightened need in the aftermath of the pandemic to support reforms and investments to reinvigorate the potential for growth, to strengthen cohesion among Member States and to increase their resilience. This is in accordance with objectives set out in Article 175 TFEU.

- **Can the Commission elaborate on how legal commitments will be made and which de-commitment rules will apply? (PL)**

Answer

– Legal commitments will be made in accordance with the rules and procedures of the respective Union programmes as well as the Financial Regulation.

– Commitment appropriations related to the funds mobilised for Next Generation EU can be carried over until the end of 2024. Commitment appropriations cannot be carried over beyond this deadline as legal commitments cannot be entered into after end-2024.

- **Does the Commission intend to introduce subsidies to interests in the loan component? (PL)**

Answer

– Loans provided by the Union are provided at the borrowing costs of the Union, which are very favourable and reflect the Union's high creditworthiness. There is no subsidy in addition to these favourable funding costs.

- **Can the Commission elaborate on the schedule of the borrowing plan? (PL)**

Answer

– The funds for Next Generation EU will be raised in the coming years via the issuance of bonds with different maturities ranging up to 30 years. The Commission will target a spectrum of maturities, which will spread the repayments in a balanced manner across the envisaged repayment period 2028-2058. This issuance will need to be designed to make best use of the capacity of capital markets to absorb these bonds. There is no intention to accumulate funds ahead of the actual repayment of bonds.

- **Can the Commission elaborate on guaranties and liabilities covered by the EU budget? (FI)**

Answer

– The Commission prepares annually a detailed report on the guarantees covered by the general budget (https://ec.europa.eu/transparency/regdoc/rep/1/2019/EN/COM-2019-484-F1-EN-MAIN-PART-1.PDF). This report covers also the liabilities from borrowing operations.

- **Can the Commission elaborate on how the headroom under the own resource ceiling is affected by payments from the recovery instrument (borrow to spend)? (SE)**

Answer

– The headroom in the budget provides investors with the assurance that the Union will under any circumstances be able to fulfil its financial obligations. It is therefore an important element to enable the borrowing.

- **Will the guarantees provided under Next Generation EU be covered by the Common Provisioning Fund (CPF) or the management of their assets will be separated from the CPF? If yes, who will perform this role? (PL)**

Answer

– The Commission proposes that part of the support under Next Generation EU is provided in the form of budgetary guarantees under the Solvency Support Instrument as well as under InvestEU, including the new window for strategic autonomy. The provisioning for this support will be governed by the rules of these programmes as well as the relevant provisions of the Financial Regulation. The assets for the provisioning will therefore be held and managed in the Common Provisioning Fund (CPF) up until the moment when they need to be used to honour guarantee calls.

- **Will unused external assigned revenues be used for debt repayment or will they be returned to the instrument/ program and be rolled over until the end of these programs or its successors? (PL)**

– In line with Article 4 of the proposal for Regulation COM(2020) 441, no legal commitments/loans/operations in relation to budget guarantees will be possible after 2024. The commitment appropriations, which have been made automatically available after the entry into force of the Own Resources Decision providing the empowerment for financing, and which still remain available after 2024 may not be further used except for administrative and support expenditure related to the implementation of the measures authorized by the proposal for Regulation COM(2020) 441. There will be no borrowing operations for unused commitment appropriations.

- **Could the Commission elaborate why the borrowing costs related to the Next Generation EU grant component are foreseen to be paid within heading 2 and under which sub-heading? (PL)**

– The borrowing costs for Next Generation EU are included under the ceilings of Heading 2b, Cluster 6 'Recovery and Resilience' together with the Recovery and Resilience Facility, which is the biggest expenditure item that will receive financing from Next Generation EU.

4.1 Governance

- **Please explain how the Commission envisages the annual budgeting process of the Recovery Fund across different programmes and the involvement of Member States in other planning stages (preparation for work programmes, for example). Please explain the ramifications of the Recovery instrument for the reporting processes. For example, ¼ of the JTF would be under the MFF and 3/4 under the Next generation EU, hence looking only at the MFF part would be a small fragment of the big picture. Does the Commission intend to integrate of Next Generation EU into regular reporting processes (in addition to the specific annual report on the recovery instrument)? (DE)**

- **How does the Commission expect to deal with the tension between financing through external assigned revenues and the principles of unity of budget and universality of the budget? (EE)**

- **The Commission has announced that it will ensure in an Interinstitutional Declaration or in the Interinstitutional Agreement that the Council and the European Parliament will have a say in steering the funds of 'Next Generation EU' (which are external Assigned Revenues). Will there be another proposal beyond what has been proposed so far? How will yearly involvement of Council and EP as well as adequate information be insured? (NL)**

- **Given that we deal with a proposal of more than 800 bn. EUR in current prices, how does the COM intend to ensure the same transparency and democratic accountability of these funds that we currently have for budgetary expenditure financed from "ordinary" own resources? (AT)**

<u>Answer</u>

– Next Generation EU provides for exceptional and temporary recovery measures to support the recovery within the Union in the aftermath of the COVID-19 pandemic. It will activate the authorisation to borrow set out in the own resources decision and will provide financing for the purposes of recovery and resilience.

– Part of the borrowed funds will be used as non-repayable support, financial instruments or provisioning for budgetary guarantees. The respective amounts will constitute external assigned revenues to the various spending programmes under Article 21(5) of the Financial Regulation).

– The legal basis of Next Generation EU is Article 122 TFEU, which allows for targeted derogations from standard rules in exceptional crisis situations. This also includes the principles of universality and unity.

- The recourse to Article 122 is justified as a temporary and exceptional solution in the context of the current crisis.

- Full transparency will be provided to the Budgetary Authority under the provisions of the Financial Regulation, and in particular Articles 21(6), 22, and 41(8) (working document attached to the Draft Budget).

- In addition, the Commission has proposed a new paragraph 15a to the Interinstitutional Agreement providing for a dedicated annual report to the European Parliament and the Council to provide full and transparent information on revenue (Own Resources Decision) and expenditures (Next Generation EU and sectoral spending programmes), including the contribution of the borrowed funds to the achievements of the objectives of Next Generation EU and the specific Union programmes.

- Assigned revenues are fully subject to the reporting, accounting and discharge obligations set out in Title XIII of the Financial Regulation.

- The Commission has expressed its openness to explore with the European Parliament and the Council an interinstitutional declaration setting out the principles of an annual dialogue on expenditures financed with external assigned revenues under Next Generation EU. It is willing to provide a text to this effect in the near future. The form and content of such an interinstitutional declaration should be further explored together between the three institutions in the light of the evolution of the negotiations.

- For further information, see also fiche n° 69 on external assigned revenue.

- **Can the Commission elaborate on how details of the implementation of EUR 750 bn from the Recovery Instrument will be reported to the Budgetary authority? (LT)**

<u>Answer</u>

- The Commission is suggesting an annual report to the budgetary authority on the implementation of Next Generation EU and has made a proposal to amend the Interinstitutional Agreement to that effect. In addition, the Commission will provide a half-time report by March 2023 to enable a proper review of the progress achieved.

5. Revenue

5.1 Correction mechanisms

- **Can the Commission elaborate what is envisaged as regards correction mechanisms? (BG, DE, LU, PL, FI, SE)**

Answer

– The Commission continues to take the view that phasing out all rebates will make the Multiannual Financial Framework more balanced. However, in the present situation, given the economic impact of the COVID-19 pandemic, phasing out of rebates would entail disproportionate increases of contributions for certain Member States in 2021-2027. To avoid this, the current rebates could be phased out over a much longer period of time than foreseen by the Commission in its proposal in 2018. The Commission is ready to assist during the negotiations with quantifying such longer phasing out, taking into account the broader negotiations on the revenue side including new own resources.

5.2 Own Resources Decision

- **2014-2020 MFF: Can the Commission elaborate on the impact of the proposed changes on the ceilings for the 2014-2020 MFF? (CZ, PL)**

Answer

– The proposed increase of the commitment ceilings of the MFF 2014-2020 is compatible with the existing ceiling for commitment appropriations stipulated in the Own Resources Decision for the year 2020.

– The related impact on payments can be accommodated within the existing MFF payment ceiling.

- **Can the Commission elaborate on the headroom requirements? (DK, IE, NL)**

Answer

– The 0.6% increase in the Own Resources Decisions corresponds to the maximum level of borrowing maturing in any given year (7.5% of the authorised volume) in addition to a margin to protect the excellent rating of the EU. Given the negative correlation between the size of the guarantee and the interest rate, it is essential to ensure that the own resources ceiling as proposed by the Commission is maintained in order to benefit from favourable borrowing conditions.

- **Can the Commission elaborate on the envisaged timeframe for the adoption of new Own Resources Decision? (DE, PL)**

Answer

– To enable borrowing operations under Next Generation EU to start, the Own Resources Decision needs to be adopted quickly so as to allow all Member States the time necessary to approve it in accordance with their constitutional requirements by the end of 2020.

- **Can the Commission elaborate on the temporary nature of the proposed increase? (DE, NL, FI, SE)**

Answer

– The temporary increase is exceptional and corresponds to the maturities of the borrowing.

– The temporary increase will remain in place until all the liabilities of the Union resulting from its borrowing necessary for addressing the COVID 19 crisis. According to Article 3b of the amended Own Resources Decision proposal, the temporary increase expires when all repayments are and related liabilities cease to exist. The end date is fixed at 2058 at the latest. As also explicitly stated in the proposed Own Resource Decision, the increase of ceilings can however not serve any other purpose than servicing the borrowing contracted for the sole purpose of addressing the consequence of the COVID 19 crisis.

- **Can the Commission elaborate on the possibility of the Commission to call additional funds from Member States? (EE)**

Answer

– The Commission can call on Member States to provide additional funds to cover urgent cash needs in accordance with Article 14 of the Making Available Regulation. Those rules will apply also to the coverage of liabilities from the borrowed funds.

– In addition, the Commission has proposed a safeguard clause in Article 6(4) of the Own Resources Decision ensuring that the Union is able to service its debt in all circumstances. The Commission would be able to call provisionally on Member States for additional cash resources if the appropriations available in the budget or its cash assets would not suffice. Article 14(3) of the Making Available Regulation provides for this possibility. The Commission would be able to draw from Member States within the limits of the own resources ceiling. The calls would be shared among Member States as provided for in article 14(4) of the Making Available Regulation.

- **Can the Commission elaborate on the proposed permanent increase of the own resources ceilings? (FI, IE)**

<u>Answer</u>

– The Commission proposal of 2 May 2018 must be amended to allow for an additional increase of 0.11 percentage points of both the ceiling for appropriations for commitments and the ceiling for appropriations for payments. This increase comes on top of the adjustments already proposed to cater for the automatic reduction of the absolute amount of the Own Resources Decision ceilings due to the withdrawal of the United Kingdom from the EU and the corresponding reduction of the Union's Gross National Income. The additional increase is necessary to ensure that the Union is in a position to cover all of its financial obligations and contingent liabilities (and, therefore, maintain its very high credit rating) in any given year and under any circumstances, even in cases of sudden and sharp economic shocks similar to the contraction of the economy projected as a result of the COVID-19 crisis.

- **Will borrowing become a regular activity and income source beyond the next MFF? (LV)**

<u>Answer</u>

– The operative part of the Own Resource Decision clearly indicates that the borrowing will be limited to addressing the consequences of the COVID19 crisis. It will remain an exceptional operation. Article 3a of the proposed Own Resources Decision makes this explicit.

- **Can the Commission elaborate on the nature of the funds to be borrowed? (AT)**

<u>Answer</u>

– Next Generation EU provides for exceptional and temporary recovery measures to support the recovery within the Union in the aftermath of the COVID-19 pandemic. It will activate the authorisation to borrow set out in the Own Resources Decision and will provide financing for the purposes of recovery and resilience.

– Part of the borrowed funds will be used as non-repayable support, financial instruments or provisioning for budgetary guarantees. The respective amounts will constitute external assigned revenues to the various spending programmes under Article 21(5) of the Financial Regulation.

– The other part of the borrowed funds will be used for loans within the Recovery and Resilience Facility.

- **Can the Commission elaborate on how large the headroom is under the own resource ceiling in the different years? (SE)**

Answer

– The exact level of the headroom will to a large extent depend on the actual level of the Gross National Income (GNI) of the EU27 in future years. In the current economic conditions and high volatility of the economic indicators, making long-term projections stemming from GNI levels may provide a distorted picture. In its proposal, the Commission has put forward a level of the Own Resources Decision ceilings that would ensure sufficient headroom in any single year even in times of sudden and sharp economic shock, similar to the COVID-19 economic impact.

- **Can the Commission elaborate on the envisaged legal and economic grounds regarding the repayment plan and the management of the bonds? (DE)**

Answer

– The Commission has not made a proposal for specific repayment plan as this can only be fully determined once all the issuance has been done. Two factors are relevant for this: First, the Commission will need to adapt its issuance to the capacity of the markets to absorb bonds with different maturities and to ensure low cost of borrowing for the Union. Second, the loan agreements under the Recovery and Resilience Facility will need to be agreed with the respective beneficiary Member States. This will determine the principal repayments that will already be covered by loan repayments. This will then need to be complemented with the repayments from future financial frameworks.

– That being said, the Commission has proposed to enshrine in the Own Resources Decision a maximum amount of repayments that can become due in any given year. The Commission has in addition proposed in the Own Resources Decision a requirement to target a maturity structure in accordance with the principle of sound financial management, so as to ensure the steady and predictable reduction in liabilities. Both provisions would set the limitations for the repayment schedule which becomes fully predictable once the bonds have been issued.

– The Commission believes that the Union (and its Member States) should be fully focused on investing in repair and recovery during this financial framework and repayment should therefore be deferred to future periods in order to avoid creating additional burden now.

- **Can the Commission elaborate on the technical considerations which lead to increasing the Own Resources ceiling? (DE)**

<u>Answer</u>

– The need for headroom is primarily related the to the repayments and less to the outstanding amount of the bonds issued for funding Next Generation EU. The temporary increase should therefore be maintained as long as there are repayments by the Union and liabilities stemming from loans. In addition, as parts of the repayments will need to be made from future financial frameworks, it is likely that part of the temporary increase in headroom will automatically be reduced by higher payment ceilings, assuming that the maximum own resources ceiling of 2 percent of GNI is maintained.

- **What are the forecasts for GNI (in 2018 and current prices) used for the calculation of proposed headroom below OR ceiling? (PL)**

<u>Answer</u>

– The proposal for the Own Resources ceiling is not based on a specific GNI forecast as it should remain sustainable in future years under any circumstances. The proposed level takes into account a safety margin for sudden and sharp downward revisions of the GNI, as observed for 2020 due to the COVID-19 impact on the economy.

- **Which article of the proposed amendment of Own Resources Decision foresees the possibility for the EU to roll over debt where this proves advantageous in terms of management of liabilities? Who will be responsible for taking this decision of rolling-over debt? (PL)**

<u>Answer</u>

– The empowerment for borrowing suggested in the Own Resources Decision entrusts the Commission with implementing the operations through a diversified funding strategy that makes best use of the capacity of the markets to absorb borrowing of such significant amounts of funds with different maturities and that ensures the most advantageous repayment conditions. Such a funding strategy can, in limited amounts, require the refinancing of existing liabilities in order to adjust upcoming repayment obligations to the envisaged repayment schedule. According to the Own Resources Decision, any such operation will need to be in full accordance with the principle of sound financial management and result in a steady and predictable reduction in liabilities. Recourse to such operations will be decided by the Commission, under its responsibilities for implementation of the budget, on the basis of the diversified funding strategy to be implemented in line with the budgetary and financial planning for the repayment schedule which is agreed with Member States (as part of MFF and annual budget procedures).

5.3 New Own Resources

- **What is the current Commission proposal for each category of own resources? (PL)**

Answer

– The Commission proposal remains the one adopted in May 2018. However, we acknowledge the progress made in the European Council and the Council, in particular with regard to the 'refined method' for the VAT own resource described in Fiche No. 64, and a possible adjustment for low-income Member States with regard to the method proposed in 2018 for the plastics-based own resource.

- **Can the Commission elaborate on the distribution of potential new own resources per Member State? (FR, LU, PL)**

Answer

– The breakdown by Member State would depend on the design of each of these own resources.

- **Can the Commission elaborate on the timing of potential new own resources? (LU, PL)**

Answer

– The Commission will apply full better regulation principles, such as full impact assessment and public consultation, ahead of making any legislative proposal, as soon as possible within the mandate of this Commission.

- **Does the Commission intend to introduce a mechanism to correct the regressiveness of the proposed plastic based own resources? (PL)**

Answer

– Council document 1983/2020 has proposed a lump sum corresponding to one fifth of the EU27 quantity of plastic packaging waste which is not recycled per capita, in 2017, multiplied by the population of the Member State concerned on the same year (3.8 kg multiplied by the 2017 population). It is based on the most recent existing data on plastics (2017), and on the population data for the same year published by Eurostat.

– The correction ensures that the Own Resource contribution is not disproportionally regressive. It will reduce the national contribution of the Member States with a GNI below the EU average in 2017, regardless of their individual recycling rates.

- At the same time, the correction will maintain their incentive to reduce pollution from plastics.

- The total correction amounts to EUR 710 million.

• **Can the Commission elaborate on the ETS-related own resource?**

- These questions will be addressed in a separate fiche to issue shortly.

• **Could the Commission provide more detailed background information on the estimate of 5bn to 14bn EUR from the introduction of a carbon border adjustment mechanism? (DE)**

Answer

- These estimates depend of the design and the scope of a possible border carbon adjustment mechanism, which will only be implemented to create a level playing field if our trade partners fail to meet a similar level of ambition in climate change mitigation as the EU. They include a possible reduction of free allocation in the ETS.

• **What is the Commission plan regarding the digital tax provided no global agreement is reached by the OECD and G20? (PL)**

Answer

- The Commission acknowledges that the discussions in the Council on the 2018 digital package have currently been paused in order to wait for the results of the current discussions at the OECD on the so-called pillar 1 and pillar 2. The Commission supports the current discussions at the global level.