Position Paper

on the European Commission’s proposal for a post-2020 Multiannual Financial Framework

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Opinion on the European Commission's proposal for a post-2020 Multiannual Financial Framework

Table of contents
I. Introduction........................................................................................................................................3
II. Expenditure side ..................................................................................................................................3
III. Revenue side ......................................................................................................................................3
IV. Programmes ....................................................................................................................................4
  ERDF ....................................................................................................................................................4
  EAFRD ..................................................................................................................................................5
  ESF+ ....................................................................................................................................................5
  InvestEU .............................................................................................................................................6
  The new Single Market programme .................................................................................................7
  Erasmus ................................................................................................................................................8
  Horizon Europe ..................................................................................................................................9
  Digital Europe ...................................................................................................................................10
  Reform Support Programme and Investment Stabilisation Function ...........................................11
  Asylum and Migration Programme .................................................................................................12
  LIFE ..................................................................................................................................................13
VI. Closing remark ...............................................................................................................................13
The German Confederation of Skilled Crafts (ZDH), an umbrella organisation covering 53 chambers of skilled crafts and 48 confederations of guilds, as well as skilled craft business and research institutions in Germany, represents the interests of more than 1 million skilled craft companies in Germany. These in turn employ more than 5.4 million people, have some 360,000 apprentices and an annual turnover of €562 billion.

I. Introduction

Brexit will result in a gap of over EUR 10 billion in the EU budget. But at the same time the EU is supposed to be taking on new tasks in the fields of security, migration and competitiveness, all of which will require additional financial resources. From 2020 onwards, the budget gap will thus amount to around EUR 20 billion, a situation requiring a major overhaul of EU funding. The Commission has made a start in tackling this, putting forward its proposals for the post-2020 Multiannual Financial Framework.

II. Expenditure side

In the future, the EU will have to allocate higher budgets to security, migration and competitiveness. In these areas, the bundling of activities (protection of the EU’s external border, a defence union, etc.) can help economies of scale to be achieved. In this case, the German skilled craft sector would be in support of the EU taking over these tasks. In reaction to the reduced budget, the Commission is planning to cut current EU spending. The German skilled craft sector calls on decision-makers to decide wisely, cutting expenditure in the right places and unleashing the potential for synergies. Forward-looking programmes with a clear added value for the EU and contributing to the stability of the European economy should be exempted from such cuts.

III. Revenue side

As the new priorities cannot be financed solely by budget cuts and efficiency gains, the Commission is calling for the gap to be closed – at least partially – by new sources of revenue.

Commission proposal: In addition to an increase in national contributions and the step-by-step elimination of all rebates over five years, three new sources of revenue (“Own Resources”) are proposed. Under the proposal, 20% of the revenues from the Emissions Trading System and 3% of those from the new Common Consolidated Corporate Tax Base (CCCTB) are to flow into the EU budget. In addition, Member States are to pay a plastics tax amounting to EUR 0.80 per kilo of non-recycled plastic packaging waste. Grants to cover interest costs within the context of the Investment Stabilisation Function are to be financed through income from seigniorage. These new Own Resources are expected to account for ca. 12% of the total EU budget, contributing up to EUR 22 billion per year.

ZDH position: In the view of the German skilled craft sector, EU taxes are to be principally avoided. In a federal system – the current governance form of the EU and set to remain so in the foreseeable future –, the competence to levy taxes lies solely with the Member States and their parliaments. All of the proposed new Own Resources are therefore viewed critically by the German skilled craft sector.
IV. Programmes

The European Commission presented its proposal for the post-2020 MFF on 2 May 2018. This was followed shortly afterwards by proposals for regulations for the individual programmes. On the following pages, the German skilled craft sector takes position on the relevant programmes.

**ERDF**

*European Regional Development Fund*

**Commission proposal:** The EU Commission presented its proposals for restructuring the EU structural funds. The proposals are characterised by substantial budget cuts. Total spending of EUR 373 billion (at current prices) is planned for the 2021-2027 period: some EUR 226 billion are earmarked for the ERDF, EUR 101 billion for ESF+ and EUR 46 billion for the Cohesion Fund. It can be expected that EUR 17.6 billion will be allocated to Germany. Whereas the previous budget referred to 11 "policy objectives", this has been pruned to 5 in the new proposal. As before, a Member State's gross national income per capita is to be used for allocating the budget. Of special interest to the German skilled craft sector is Policy Objective 1 (PO 1), "a smarter Europe", which includes "enhancing growth and competitiveness of SMEs". PO 2 addresses investments in a "greener, low-carbon Europe". With regard to Germany, the Commission would like to see future cohesion policy prioritising these two objectives. Access to the Funds is to be simplified, with common rules applying to all 7 EU Funds.

**ZDH position:** The proposals for reducing red tape, simplifying rules and increasing flexibility all go in the right direction. It is not yet clear, however, how the available resources will be divided up among the regions. Important aspects in this respect:

- In the view of the German skilled craft sector, it is good to see priority being given to the promotion of SMEs.
- The greater flexibility within the funding period and the common rules allowing the administrative burden to be reduced are very positive changes.
- Another positive aspect is that all German regions will continue to be covered by the cohesion policy. The current German transition regions are set to remain as such. To prevent a funding gap leading to distortions of competition between the regions concerned, measures must be taken to ensure that structurally stronger regions can also receive adequate funding.
- Unfortunately, the major importance of VET systems in regional development policy is not adequately stressed. A greater spotlight needs to be put on VET.
- The budget cuts are significant for relatively well-developed regions and are compounded by the planned lower EU co-financing rates. EU co-financing rates need to be increased in order to prevent certain regions withdrawing from structural funding, thereby losing important potential for modernisation.
- Centralisation tendencies through reallocating resources to centrally-controlled instruments should be avoided. Decentralised funding structures are needed to ensure a high level of pinpointed funding.
The options for supporting and advising SMEs are not yet specified in sufficient detail, despite the fact that regional modernisation processes can be decisively boosted by process innovation and technology transfer. In this respect, the regulations need to define the term ‘innovation’ as widely as possible.

**EAFRD**

*European Agricultural Fund for Rural Development*

**Commission proposal:** The Commission proposal provides for removing the EAFRD from the common rules governing the Structural Funds. It is to be expected that this change will make it much more difficult to combine funds, for instance ERDF and EAFRD funds.

**ZDH position:** In their many different forms, skilled craft companies leave their stamp on rural districts, ensuring supply structures and shaping social life in villages and small towns. In rural areas in particular, regionally embedded SMEs in the skilled craft sector contribute to social and economic stability. The Commission proposal however seems to prioritise agricultural undertakings.

This gives rise to the fear that, within the context of centralising programme planning, a stronger focus will be put on supporting such undertakings. This is rejected by the German skilled craft sector. Especially with regard to the growing challenges facing rural areas, such as demographic change, outward migration or economic structural change, there is a need to support a wide range of rural players.

It is regrettable that the proposal makes only indirect reference to principles for supporting non-agricultural SMEs in rural areas. EAFRD financing should remain available to such undertakings, as they represent a backbone for the quality of life in rural areas.

Indeed, village renewal is not even explicitly mentioned in the current Commission proposal. We need to ensure that the term "smart villages" continues to cover the skilled craft sector and support for village renewal projects. Similarly, the framework conditions for rural infrastructure and for doing business in rural areas need to be specifically supported, from the transport infrastructure, via broadband networks and schools, to the stimulation of innovation and investment in villages and small towns.

**ESF+**

*European Social Fund+

**Commission proposal:** The Commission presented its legislative proposal on post-2020 cohesion policy on 29 May 2108. For the period 2021-2027, the European Social Fund Plus will have at its disposal EUR 101.2 billion. The programme is focused on human capital investments, ensuring that Europeans are equipped with the right skills to master the challenges and changes confronting the labour market. The merger of the ESF with the Youth Employment Initiative, the Fund for European Aid to the Most Deprived (FEAD), the EU Programme for Employment and Social Innovation (EaSI) and the EU Health Programme is meant to create flexibility and support the implementation of the European Pillar of Social Rights (EPSR).
**ZDH position:** Within the context of this very comprehensive ESF+, it is important to ensure that the needs of the skilled craft sector and SMEs continue to be taken into account and that education is also seen from the viewpoint of business needs. Solely focusing on the social aspects listed in the EPSR is not enough. What is needed is a focus on future-oriented programmes contributing to stabilising the European economy and enhancing the competitiveness of SMEs through supporting VET and occupational counselling systems.

The German skilled craft sector thus expressly welcomes the announcement of simplifications in ESF+ administration, above all through reducing reporting requirements, simplified reimbursement models and data surveys, and fewer controls. Nevertheless, proven approaches, such as the more flexible design of smaller support measures and the harmonisation of auditing standards, need to be allowed to remain in place.

Similarly, the proposed simplifications of documentation requirements such as reducing the list of common output indicators or the possibility of using other data sources are to be viewed positively. These have the potential to vastly reduce administration, especially in the field of inter-company training arrangements for apprentices.

We welcome the fact that EU cohesion policy is to remain open to all EU regions, with a view to maintaining social cohesion within the EU and to continuing the cross-border dialogue on regional development instruments.

Any lowering of the financing rates below 50% will endanger the implementation of ESF+ projects, as this would make the incentives to apply for such support too unattractive. ESF+ programmes must be designed in such a way that they will be taken up. Otherwise, the very sense of the Fund will be questioned.

The planned enhanced alignment of ESF+ priorities with the Recommendations of the European Semester must ensure the right balance between national economic growth and regional cohesion.

It is not enough to just use ESF+ funds to promote the social inclusion of migrants and the employment of young people not in employment, education or training. Programmes are needed to support VET and occupational counselling systems, to facilitate the transition from education/training to employment and to strengthen IVET and CVET.

**InvestEU**

**Commission proposal:** The Commission presented its proposal for a regulation on 6 June 2018. Under the InvestEU programme (the successor of the European Fund for Strategic Investments, EFSI), all EU budget financing in the form of loans and guarantees is to be brought under one roof. This move is expected to significantly boost efficiency. InvestEU will allow the EU budget to provide EUR 38 billion in guarantees to support strategically important projects across the EU. Of this amount, EUR 11.25 billion is earmarked for SMEs.

**ZDH position:** The German skilled craft sector welcomes the InvestEU proposal in principle.
Improved efficiency, combinability and clarity benefit all parties involved and heighten transparency in general.

The skilled craft sector welcomes the bundling of EU financing instruments under one roof with common rules. It now needs to be ensured that reductions in the administrative burden and in costs among intermediaries are passed on to the end customers.

The ZDH welcomes the financial support for the provision of working capital as well as of risk financing from seed to expansion stages proposed under InvestEU. Just as important however is the possibility to support takeover and successor financing (Annex II.7).

The previous loan ceiling of EUR 150,000 is no longer present in InvestEU. This is expressly welcomed, as financing volumes, in particular when starting up a company or transferring ownership, can be much higher. It is important that no ceiling be specified in the investment guidelines still to be drawn up. In order not to disadvantage small companies via-à-vis larger ones, their access to longer-term finance should be made easier. Many investments in buildings exceed the current ten-year term. The investment guidelines should therefore also make loan guarantees possible for loans with terms of at least 15 years.

The possibility to combine funds from different sources, such as financial instruments and grants is particularly welcomed. Such "blending operations" should be as uncomplicated as possible.

The planned funding for the SME policy window is much lower than the total current SME financial instruments and does not reflect the significance of SMEs for the European economy. In order to be able to repeat the success of EFSI, COSME and InnovFin, the German skilled craft sector calls for the funding earmarked for the SME policy window to be raised to at least EUR 15 billion (Annex I).

When a policy window is explicitly called an "SME policy window", then it should be accessible solely by SMEs falling under the EU definition of SMEs. Access by, even if only in justifiable cases, small mid-caps, is rejected by the German skilled craft sector (Art. 7.1). To increase the focus of the financial support, it might even be worthwhile to consider earmarking an appropriate share of the available funding for small companies with less than 50 employees.

The new Single Market programme

Commission proposal: The European Commission presented its proposal for a new Single Market programme within the framework of the next MFF on 7 June 2018. Funding of EUR 4 billion is earmarked for the programme. A quarter of that is earmarked to support SME competitiveness. Building on the success of the Enterprise Europe Network (EEN) and Erasmus for Young Entrepreneurs, the mentoring scheme for young entrepreneurs is a core feature of the SME window. The financial instruments, up to now the core element of COSME, will in the future be integrated in the InvestEU programme. Alongside the SME support, the Single Market programme will be used to support measures in the fields of...
consumer protection, health, standards, animal protection, statistics and others.

ZDH welcomes the fact that the SME window constitutes a core element of the Single Market programme. The window needs to be meaningfully coordinated with SME measures in other programmes (i.a. InvestEU, Horizont, ERDF).

The skilled craft sector welcomes the continuation of the EEN. To enable a seamless transition to the next programme period, it is important to define the specific tasks of the EEN, to select the network partners and to set the budget of the measure in a timely manner. At the end of the day, the success of the programme is dependent on the bureaucratic effort for both companies and the network partners to implement it being as small as possible.

The German skilled craft sector supports the requirement that the SME window under InvestEU should contribute to realising the objectives of the Single Market Regulation. The practical implementation of this requirement must be verifiable on the basis of clear criteria.

ZDH supports the continuation of Erasmus for Young Entrepreneurs. It is important that the programme be made available not just to start-ups and scale-ups, but also to all SMEs.

The scope of the Single Market programme covers a wide range of topics (i.a. SMEs, standards, consumer protection, animal protection). This gives rise to the fear that conflicts of interest will arise. To prevent this happening, clear priorities need to be set. In light of the outstanding importance of SMEs for the diversification and strengthening of the European economy and the creation of sustainable jobs, ZDH would like to see priority being given to SME topics. It is also important that the Single Market programme be open to all SMEs, including those operating in fields subject to lower levels of competition.

**Erasmus**

Commission proposal: On 30 May 2018, the EU Commission presented its legislative proposal for the coming "Erasmus" programme under the next MFF. The aim of the programme is to financially support stays abroad for a total of 12 million apprentices, school pupils, students and other learners and teachers. This constitutes a tripling of the target population. The total budget is to be doubled, from the previous EUR 14.7 billion to EUR 30 billion, whereby at least EUR 5.23 billion is earmarked for VET. This means that the VET share has been significantly increased vis-à-vis university education.

ZDH position: With its proposals, the EU Commission is underlining not just the high importance attached to education for the EU's competitiveness and innovation capacity, but also the equal weight of vocational and university education.

The German skilled craft sector expressly welcomes the planned doubling of the budget and the programme's extension to third countries. Similarly, the idea of financially supporting Centres of vocational excellence is very positive in the opinion of the skilled craft sector.

The same goes for the announcement of simplified access to funding, which is of great interest to small skilled craft companies and their apprentices. But this
must not end up being a “paper tiger”, as was often the case in the past with such announcements. Streamlined and comprehensible application procedures, simplified reporting and approaches targeting specific groups play a decisive role in enabling Erasmus to unfold its full potential in the skilled craft sector.

The consistent orientation of the programme towards the specific needs of the dual VET system (combining theory with on-the-job training) is however not sufficiently enshrined in the proposal. Further clarification is needed. This includes for instance the re-introduction of pool projects, as well as foreign language support and intercultural preparation for participants. The Online Linguistic Support (OLS) has not proved to be of much use in the field of VET.

It is not enough to only support learners in their initial vocational education and training (IVET) up to one year after completing an apprenticeship. In the opinion of the skilled craft sector, it is also necessary to extend financial support to skilled workers further on in their careers.

The increased focus on “inclusion” must not lead to the programme objectives of VET excellence and quality being neglected or watered down. Similarly, support for long-term IVET and CVET mobility must not come at the expense of the short-term stays abroad so important for the skilled craft sector.

**Horizon Europe**

**Commission proposal:** The EU Commission presented its legislative proposal for the 9th Framework Programme for Research and Innovation – Horizon Europe – in the context of the next MFF on 7 June 2018. A budget of around EUR 100 billion is planned. Alongside EU-wide missions, a European Innovation Council (EIC) is to assume a front-runner role in supporting market-creating innovation and breakthrough technologies. The EIC is a one-stop shop designed to bring the most promising ideas from lab to real world application and support the most innovative start-ups and companies to scale up their ideas. It will provide direct support to innovators through two main funding instruments, one for early stages (the ‘EIC Pathfinder’) and the other for development and market deployment (the ‘EIC Accelerator’). The current SME instrument will be integrated into the programme. Seamless transitions of successful projects to the Structural Funds are to be ensured via ‘Seal of Excellence’ certification.

**ZDH position:** Through the establishment of the EIC, it can be expected that SMEs will become a lot more innovative. But these ambitious goals need to be underpinned by a substantial increase in the funding for this instrument. Similarly, the establishment of parallel structures must be avoided.

With its five clusters, the programme sets important priorities. Their interpretation should be based on a wide understanding and needs to be continually observed and regularly assessed to avoid misallocations.

The ZDH welcomes the heightened focus on breakthrough and market-creating
innovations through a meaningful and not-too-restrictive definition.

The implementation simplifications foreseen in the programme are to be welcomed in principle, but need to take greater account of SME interests. Of decisive importance for SMEs is the heightened use of simplified reimbursement systems, above all in the case of flat-rate financing.

The increased synergies with other support programmes are to be welcomed, insofar as these measures are in line with the goals of the respective programme and insofar as the rules governing the Fund in question are applied.

The introduction of the EIC Accelerator is welcomed. However, the planned budget of EUR 13.5 billion (some 14% of the specific programmes) is too low and should be increased to at least 20%. Furthermore, the preferential treatment of mid-caps should be significantly restricted or completely deleted.

The Horizon Europe proposal currently contains no target for SME participation. With regard to its Pillar 2, "Global Challenges and Industrial Competitiveness", and its Pillar 3, "Open Innovation", at least 20% should be earmarked for SME participation, thereby promoting enhanced innovation activities in small companies.

The success rates of the current SME Instrument are not very promising. To enable SMEs to participate more in Horizon Europe, the success rates for the current SME Instrument and its successor need to be improved. This is decisively dependent on how easy it is to access funding.

Project applications in the context of the EIC Accelerator need to be assessed and selected by independent experts. The selection of these experts must be guided by the principle of equal representation, with SME representatives being involved on the same footing as representatives from academia.

Digital Europe

Commission proposal: The Commission presented its proposed regulation for the new Digital Europe programme on 6 June 2018. Meant to complement the Horizon Europe and the Connecting Europe Facility programmes, the new programme focuses on the creation of an infrastructure for deploying new technologies and on capacity building, which in turn will provide input for future research around five areas (high-performance computing, artificial intelligence, cybersecurity, advanced digital skills, and ensuring their wide use and accessibility across the economy and society by businesses and the public sector alike). EUR 9.2 billion are earmarked for Digital Europe in the next MFF.

ZDH position: The German skilled craft sector welcomes the proposed Digital Europe programme in principle, though its accessibility needs to be made easier and broader-based. Moreover, existing and well-functioning structures should not be negatively impacted.

The concept of establishing Digital Innovation Hubs throughout Europe is supported by ZDH. The nomination and selection criteria for deciding whether hubs
are to be supported need to be clearly defined. The establishment of the hubs should be based on existing and well-functioning structures for promoting SME digitalisation and everything must be done to avoid parallel structures. Intermediate and already established regional organisations for supporting companies, such as craft chambers and associations, are therefore to be included as multipliers.

The focus on five fields restricts the possibility of supporting SMEs, focusing exclusively on the competitive aspects of digitalisation. It would be much better to have a more horizontal orientation ensuring sufficient flexibility and thereby supporting all SMEs (not just those operating in high-competition fields). This is especially important due to the fact that SMEs play an outstanding role in advancing digitalisation. Similarly, the thematic and instrumental orientation must not be limited to top-end digital technologies, but must have the potential to reach out to all SMEs in their day-to-day work, i.e. with an implementation focus.

Basically speaking, financial and other support for SME digitalisation should not be limited solely to the Digital Innovation Hubs. Broader support must continue to be ensured. Furthermore, consistency and combinability with other EU SME support programmes must be guaranteed.

The Trans-European dimension as a basic requirement for financial support restricts SME access to funding. To reach out to small companies operating locally, support must also be accessible for companies operating within national borders.

**Reform Support Programme and Investment Stabilisation Function**

**Commission proposal:** In May 2018, the European Commission presented proposals for an Investment Stabilisation Function and a Reform Support Programme within the context of the MFF. The first is intended to enable/make it easier for Member States of the euro area and those participating in the European Exchange Rate Mechanism (ERM II) to stabilise public investment levels in cases of significant economic shocks. This is to be achieved via back-to-back loans (a total volume of EUR 30 billion) and interest rate subsidies. The second is intended to provide financial (max. EUR 25 billion) and technical support in implementing major structural reforms.

**ZDH position:** the proposals put forward should not be implemented. The Reform Support Programme is incompatible with the principle of subsidiarity. The added value of both programmes over and above existing structures is in many ways hard to discern and in no way justifies the resultant moral hazard.

**An Investment Stabilisation Function** weakens the incentives to pursue a responsible national budget policy, thereby increasing the danger and likelihood of a new debt crisis.

The various existing EU investment programmes remain in operation during economic downturns, providing additional liquidity. In cases of significant economic shocks, during which Member States lose the liquidity necessary for investments, they already have the ESM.

It is not clear how a fair allocation of financial support in the Reform Support
Programme can be achieved. The value of reforms and the criteria for monitoring reform progress are not easily measured and are thus very subjective.

As the financial aid for a reform programme is not paid out until it has been successfully completed, it acts as a reward, not as support.

Seigniorage revenues are Member State revenues. Any reassignment of these revenues to the European level is rejected by the German skilled craft sector.

Asylum and Migration Programme

Commission proposal: On 7 June 2018, the EU Commission presented its proposal for a new Asylum and Migration Fund (AMF) in the context of the next Multiannual Financial Framework (2021-2027). Endowed with a total budget of EUR 10.4 billion, the AMF pursues the following objectives: the strengthening and further development of all aspects of the Common European Asylum System, support for legal immigration to the Member States (including a contribution for the integration of non-EU citizens), a contribution for countering irregular migration and for increasing the effective return of those people who have no right to stay and cooperation on readmission with third countries. Under certain conditions, the Fund may also be used by third countries. The co-financing rate will be at least 25%.

ZDH position: The German skilled craft sector welcomes the fact that migration is set to play a key role in the next MFF and that the topic has finally arrived at European level. Against the background of continuing high migratory pressure, EU-wide solidarity is needed to resettle those seeking protection in several Member States, away from the front-line ones.

The ZDH welcomes the significant increase in EU funding for migration policy. It is also considered positive that specific agencies such as the EASO are to receive additional funding. But of far greater importance is the need to provide explicit support for those providing integration services, especially companies providing refugees with training.

The ZDH also welcomes the two goals of the AMF, i.e. a) integrating legally staying non-EU citizens into the labour market in the medium to long term, with a focus on supporting SMEs; and b) more effectively returning irregular migrants. It is of decisive importance to clearly distinguish between taking in refugees and giving non-EU citizens access to the labour market.

A co-financing rate of 25% is appropriate. This acts as a greater incentive for structurally weak regions to initiate measures.

A further positive aspect is that the AMF can dispense emergency funding when a Member State becomes subject to “disproportionate heavy migratory pressure characterised by a large or disproportionate inflow of third-country nationals”. However, account needs to be taken of non-financial aspects.
**LIFE**

**Commission proposal:** The European Commission presented its proposal for continuing the Programme for the Environment and Climate Action (LIFE) under the MFF for 2021-2027 on 1 June 2018. The main aim of the programme is to support implementation of EU legislation and to test innovative approaches with a view to propagating them throughout the EU. LIFE has two strands, the environment and climate, each with two sub-programmes. A new aspect is the stronger focus on energy topics. The programme's budget is to be increased by EUR 1.95 billion, on top of its current EUR 3.5 billion.

**ZDH position:** Though the topics covered by the LIFE programme are very relevant to the skilled craft sector, ZDH is critical of the proposal in certain fundamental areas.

- The German skilled craft sector welcomes - albeit with reservations - the integration of a clean energy transition component into the climate scope of LIFE. With energy efficiency and renewable energy as key building blocks for achieving the EU's climate targets, the new component provides additional impetus. The reservations are directed more against the framework conditions for support (see below).

- Fundamental changes are needed in the rules governing the programme's framework and in the application procedure. For instance, the rate of project co-financing is nowhere to be found in the text of the proposed regulation, although such a rate is fundamental to any support programme. In no way can it be set via a delegated act. Over and above the rules, the German skilled craft sector is calling for a guarantee that support for energy-efficiency projects will not get worse through being moved from the Horizon Programme to the LIFE programme. Following the revision of a substantial part of the EU's energy policy *acquis* in this legislative period, there is now a considerable need for measures to support and promote the national, regional and local implementation of European law.

- The skilled craft sector is also calling for the support focuses to be defined and specified in greater detail within the regulation, instead of in the multiannual work programmes. The support focuses are just as essential for the support programme.

**VI. Closing remark**

The preparation of the next Multiannual Financial Framework is a difficult task in times of budget constraints and in a Europe characterised by diverging interests. This makes it all the more important for the decision-makers to do everything in their power to achieve efficiency gains.

Against this background, putting a focus on the added value for Europe is justified.

The experiences gained in setting up the current MFF have shown that delayed adoption leads to support measures being put on ice, with serious consequences. With this in mind, the German skilled craft sector urgently calls on the decision-makers to conclude the policy-setting negotiations for the next MFF before the European Parliament elections in May 2019.